

Agency Proposed Budget

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	151.07	2.65	4.00	157.72	2.65	4.00	157.72	157.72
Personal Services	6,995,736	706,415	220,161	7,922,312	704,786	221,094	7,921,616	15,843,928
Operating Expenses	8,108,925	948,648	4,889,000	13,946,573	306,791	669,000	9,084,716	23,031,289
Equipment	245,179	7,000	150,000	402,179	0	150,000	395,179	797,358
Local Assistance	28,637	0	0	28,637	0	0	28,637	57,274
Grants	0	0	1,160,000	1,160,000	0	1,160,000	1,160,000	2,320,000
Transfers	500,000	0	0	500,000	0	0	500,000	1,000,000
Debt Service	1,167,367	(1,135,317)	0	32,050	(1,135,317)	0	32,050	64,100
Total Costs	\$17,045,844	\$526,746	\$6,419,161	\$23,991,751	(\$123,740)	\$2,200,094	\$19,122,198	\$43,113,949
General Fund	3,363,958	250,871	4,400,000	8,014,829	229,206	300,000	3,893,164	11,907,993
State/Other Special	3,715,679	598,435	1,400,833	5,714,947	575,816	1,401,336	5,692,831	11,407,778
Federal Special	1,049,961	(7,768)	498,328	1,540,521	(8,772)	498,758	1,539,947	3,080,468
Capital Projects	511,542	(11,542)	0	500,000	(11,542)	0	500,000	1,000,000
Proprietary	8,404,704	(303,250)	120,000	8,221,454	(908,448)	0	7,496,256	15,717,710
Total Funds	\$17,045,844	\$526,746	\$6,419,161	\$23,991,751	(\$123,740)	\$2,200,094	\$19,122,198	\$43,113,949

Agency Description

The Department of Administration provides central services for state agencies in the following areas:

- Accounting and financial reporting
- Warrant writing
- Technical assistance and training to local government accounting and financial personnel
- Audit review and enforcement for local governments
- Consumer protection
- State bonded indebtedness administration
- State treasury services
- Capitol complex building maintenance and security
- State financial institution oversight and regulation
- Montana State Lottery
- Insurance coverage and Tort Claims Act administration
- Information systems development, telecommunications, data processing, and strategic planning
- Personnel management and labor relations
- Purchasing and surplus property administration
- Duplicating, mail, and messenger services

The department also administers the state Long-Range Building Program and state employee group benefits program. The Board of Examiners, the State Tax Appeal Board, the Appellate Defender, the Public Employees' Retirement Board, the Teachers' Retirement Board, and the Montana Consensus Council are attached to the department for administrative purposes only.

Agency Highlights

Department of Administration Major Budget Highlights
<ul style="list-style-type: none"> • Total funds would increase through adjustments totaling just over \$9 million for the biennium over the base (an average annual increase of 26.5 percent) <ul style="list-style-type: none"> • General fund adjustments account for \$5.2 million of the increase (an average annual increase of 77 percent over the base) • State special revenue adjustments account for \$4 million of the increase (an average annual increase of 54 percent over the base) • Federal special revenue adjustments account for about \$981,000 million of the increase (an average annual increase of 47 percent over the base) • Budgeted proprietary fund would be reduced through adjustments totaling \$1.1 million (an average annual decrease of 6.5 percent from the base) • Significant budget increases for general fund are for: <ul style="list-style-type: none"> • Emergency telecommunications infrastructure (\$4.1 million) • Public safety communications program funding switch from federal special revenue and program increases (\$600,000) • Statewide present law adjustments (\$498,000) • Significant budget increases for state special revenue are for: <ul style="list-style-type: none"> • Montana Land Information Act (\$2.8 million) • Statewide present law adjustments (\$637,000) • 3.25 FTE bank examiners and administrative support (\$449,000) • Significant budget increases for federal special revenue are for: <ul style="list-style-type: none"> • Montana Spatial Data Infrastructure (\$1.4 million) • Significant budget increases for budgeted proprietary funds are for: <ul style="list-style-type: none"> • On-line lottery system computer equipment and software (\$600,000) • Permanent point-of-sale signs for lottery retailers (\$120,000) • Personal services would increase by 6.65 FTE in HB 2 positions for: <ul style="list-style-type: none"> • Bank examiners in the Banking and Financial Division • Administrative support for Banking and Financial Division licensing support • Public safety communications program computer analysts

*Agency Discussion***Indirect Administrative Costs**

The executive includes adjustments in all programs to provide funding for indirect administrative cost payments from service user programs to service provider programs that are funded with proprietary funds and provide centralized services to other programs of the agency. Figure 1 illustrates the funding and distribution of the adjustments across the

agency. Figure 1 shows that direct appropriations of general fund would be reduced by about \$7,000. The figure also shows that proprietary funds would be increased by about \$201,000 and would provide 82 percent of the increased funding. However, the legislature should be aware that proprietary programs of the department, from which these funds would be provided, get their revenue from assessments on the funding sources of all agencies that use the services, including general fund. Therefore, an increase in proprietary assessment can have a direct impact on the general fund expenditures of other agencies.

Figure 1					
Indirect Administrative Costs					
2007 Biennium					
	General Fund	State Special Revenue	Federal Special Revenue	Proprietary Funds	Total Funds
Administrative Financial Services	-\$6,168	\$60,749	\$84	-\$8,122	\$46,543
Architecture and Engineering	0	10,592	0	0	10,592
General Services	2,666	0	0	102,109	104,775
Information Technology Services	-1,656	0	-8,816	82,353	71,881
Banking and Financial	0	-9,797	0	0	-9,797
Montana State Lottery	0	0	0	-2,049	-2,049
State Personnel	-2,404	0	0	21,217	18,813
Risk Management and Tort Defense	0	0	0	5,897	5,897
State Tax Appeal Board	254	0	0	0	254
Total	-\$7,308	\$61,544	-\$8,732	\$201,405	\$246,909

Proprietary Funds

Legislative Action

The agency includes a number of programs that are funded with both funds budgeted in HB 2 and proprietary funds. Proprietary programs are grouped into two categories: 1) internal service funds; and 2) enterprise funds. For the general appropriations act, Montana law specifies different legislative action for each category. Except for the Montana State Lottery and certain direct appropriations of Board of Investment proprietary funds in the Administrative Financial Services Division, proprietary funds are not included in the HB 2 tables.

For internal service funds, the legislature establishes fiscal policy for the programs through its approval of the maximum rates programs may charge during the biennium. The legislature does this by reviewing the financial condition of the fund and the revenue and expenditure patterns of the program. The legislature reviews historical and planned operations of the program and approves rates that it determines provide financial support for the program at the level the legislature deems appropriate. The legislature also provides legislative policy direction for the program, including appropriateness of fund balances.

For enterprise funds, the legislature reviews earnings and contributed capital, projected operations and charges, and projected fund balances. The legislature does not approve the rates being charged, but provides legislative policy direction for the program, including appropriateness of charges and fund balances.

Proprietary Rates

Several programs of the agency request legislative approval of proprietary rates that are based on limiting the level of working capital of the program instead of the legislature approving the actual fees and charges billed to customers. Federal and state rules currently exist to limit proprietary funded programs from maintaining more than a 60-day working capital balance. A rate based on collecting no more than a certain level of working capital provides no budgetary limits on the operations of the program. Working capital is no more than an accounting term used to describe the balance remaining after short-term liabilities are deducted from short-term assets. The term roughly equates to the cash balance of a fund after deducting for liabilities that are due within one year. Operating parameters can easily be manipulated to control this balance by increasing expenses to compensate for high revenue collections or increasing revenues to compensate for high expenses. For further discussion, see the narrative for the individual proprietary funds.

Since the legislature is charged with approving the maximum level of fees and charges for a proprietary funded program, it can be assumed to imply a legislative concern to indirectly control expenditures through the process of setting the level of fees and charges. Approving a working capital based rate does nothing to control the level of expenditure. Instead, it grants full control of program expenditures to the executive. Programs that use the services of a proprietary funded program pay the fees with all type of funding sources including general fund and state special revenue.

The legislature may want to consider the potential impacts that approving working capital rates would have on customers funded with other sources, given that approval of a working capital rate grants the program the flexibility to adjust the actual fees and charges billed to customers. For a further discussion, see the individual proprietary account narratives in the sections that follow.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2007 Biennium Executive Budget						
Agency Program	General Fund	State Spec.	Fed Spec.	Proprietary	Grand Total	Total %
03 Admin Financial Serv Division	2,450,490	997,939	128,258	89,931	3,666,618	8.5%
04 Architecture & Engineering Pgm	-	2,505,747	-	-	2,505,747	5.8%
06 General Services Program	1,323,832	-	-	-	2,323,832	5.4%
07 Information Tech Serv Division	5,000,269	2,802,169	2,952,210	-	10,754,648	24.9%
14 Banking And Financial Division	-	5,037,441	-	-	5,037,441	11.7%
15 Montana State Lottery	-	-	-	15,627,779	15,627,779	36.2%
23 State Personnel Division	2,471,794	64,482	-	-	2,536,276	5.9%
37 State Tax Appeal Board	661,608	-	-	-	661,608	1.5%
Grand Total	<u>\$ 11,907,993</u>	<u>\$ 11,407,778</u>	<u>\$ 3,080,468</u>	<u>\$ 15,717,710</u>	<u>\$ 43,113,949</u>	<u>100.0%</u>

Biennium Budget Comparison

The following table compares the executive budget request in the 2007 biennium with the 2005 biennium by type of expenditure and source of funding. The 2005 biennium consists of actual FY 2004 expenditures and FY 2005 appropriations.

FTE	153.72	4.00	157.72	153.72	4.00	157.72	151.07	157.72
Personal Services	7,702,151	220,161	7,922,312	7,700,522	221,094	7,921,616	14,224,243	15,843,928
Operating Expenses	9,057,573	4,889,000	13,946,573	8,415,716	669,000	9,084,716	16,696,758	23,031,289
Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	Present Law Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Biennium Fiscal 04-05	Total Exec. Budget Fiscal 06-07
Equipment	252,179	150,000	402,179	245,179	150,000	395,179	1,403,574	797,358
Local Assistance	28,637	0	28,637	28,637	0	28,637	51,950	57,274
Grants	0	1,160,000	1,160,000	0	1,160,000	1,160,000	0	2,320,000
Transfers	500,000	0	500,000	500,000	0	500,000	1,000,000	1,000,000
Debt Service	32,050	0	32,050	32,050	0	32,050	1,199,417	64,100
Total Costs	\$17,572,590	\$6,419,161	\$23,991,751	\$16,922,104	\$2,200,094	\$19,122,198	\$34,575,942	\$43,113,949
General Fund	3,614,829	4,400,000	8,014,829	3,593,164	300,000	3,893,164	6,914,319	11,907,993
State/Other Special	4,314,114	1,400,833	5,714,947	4,291,495	1,401,336	5,692,831	7,789,780	11,407,778
Federal Special	1,042,193	498,328	1,540,521	1,041,189	498,758	1,539,947	3,016,894	3,080,468
Capital Projects	500,000	0	500,000	500,000	0	500,000	1,029,911	1,000,000
Proprietary	8,101,454	120,000	8,221,454	7,496,256	0	7,496,256	15,825,038	15,717,710
Total Funds	\$17,572,590	\$6,419,161	\$23,991,751	\$16,922,104	\$2,200,094	\$19,122,198	\$34,575,942	\$43,113,949

New Proposals

The "New Proposal" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	Fiscal 2006				FTE	Fiscal 2007			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 718 - MSDI Federal Request										
07	0.00	0	0	707,000	707,000	0.00	0	0	707,000	707,000
DP 719 - Montana Land Information Act (Requires Legislation)										
07	2.00	0	1,400,833	0	1,400,833	2.00	0	1,401,336	0	1,401,336
DP 721 - Public Safety Communications Program - GF										
07	2.00	300,000	0	(208,672)	91,328	2.00	300,000	0	(208,242)	91,758
DP 722 - Emergency Telecommunications Infrastructure - OTO										
07	0.00	4,100,000	0	0	4,100,000	0.00	0	0	0	0
DP 1504 - Permanent Signage										
15	0.00	0	0	0	120,000*	0.00	0	0	0	0
Total	4.00	\$4,400,000	\$1,400,833	\$498,328	\$6,419,161*	4.00	\$300,000	\$1,401,336	\$498,758	\$2,200,094

Language

The executive requests the following language for inclusion in HB 2:

"There is appropriated from the general fund to the department for payments to the Montana highway patrol pension fund the amount required for this transfer, not to exceed \$350,000 for each fiscal year."

LFD COMMENT

Purpose for Appropriation for Montana Highway Patrol Pension Fund Transfer

The language appropriation for the transfer of general fund to the Montana Highway Patrol (MHP) pension fund is used to provide the appropriation authority to transfer revenues from driver's license and duplicate driver's license fees collected under 61-5,121, MCA, and deposited in the general fund, to the MHP pension fund. The transfer provides the state contribution for a portion of the 10.18 percent of member compensation directed under 19-6-404, MCA. When the 2001 Legislature passed HB 124 revising the laws governing local government and state revenue collection and allocation, the fees were deposited into the general fund. According the Governmental Accounting Standards Board statement 34, fund transfers between component units of state government now require budgeted transactions.

"There is appropriated from the general fund to the department the amount required to be refunded to the federal government for their participation in the Workers' Compensation Old Fund transfer to the general fund, not to exceed \$300,000 in fiscal year 2006."

LFD ISSUE

Refund to the Federal Government May Not Be Necessary

This refund to the federal government for their participation in the Workers' Compensation Old Fund transfer to the general fund may not be necessary. In consultation with legislative legal staff, the following is offered.

The state has a contractual agreement with the federal government regarding cost allocation plans. If the state had overcharged on this contractual agreement, the federal government would have standing to demand that the contract be adhered to and repayment would be required. However, that is not the case with the funds transferred to the general fund for the Old Fund. The funds transferred to the general fund are excess taxes imposed by the State of Montana on employees and employers in the state due to a projected shortage in the Old Fund. This tax was deemed necessary because premium charged to ratepayers was projected to be insufficient to adequately meet all claims on the Old Fund. The situation was later found to be not as dire as first thought, and taxes in excess of the amount originally thought necessary were collected.

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It was this excess tax collection that was returned to the general fund. The federal government was not taxed. Rather, employers (including the State of Montana) and employees were. The state fulfilled its obligation when it provided workers' compensation insurance for the premium paid, and the federal government is not entitled to any return of funds. In fact, it could be argued that they were undercharged in premium, helping to necessitate the tax in the first place. The legislature may want to consider the above analysis when considering approval of the language appropriation to fund a refund to the federal government. The legislature has the following options for the proposed language:

- Do not approve the language
- Direct the Department of Administration to renegotiate with the federal government, considering the argument discussed in this issue
- Approve the language as proposed
- Approve the language, but make the appropriation contingent on validation of appropriateness based on an official opinion of the Montana Attorney General obtained by the executive

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	28.34	0.00	0.00	28.34	0.00	0.00	28.34	28.34
Personal Services	1,253,963	124,192	0	1,378,155	124,945	0	1,378,908	2,757,063
Operating Expenses	387,697	54,122	0	441,819	35,773	0	423,470	865,289
Local Assistance	22,133	0	0	22,133	0	0	22,133	44,266
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$1,663,793	\$178,314	\$0	\$1,842,107	\$160,718	\$0	\$1,824,511	\$3,666,618
General Fund	1,154,645	79,254	0	1,233,899	61,946	0	1,216,591	2,450,490
State/Other Special	406,518	92,589	0	499,107	92,314	0	498,832	997,939
Federal Special	58,675	5,429	0	64,104	5,479	0	64,154	128,258
Proprietary	43,955	1,042	0	44,997	979	0	44,934	89,931
Total Funds	\$1,663,793	\$178,314	\$0	\$1,842,107	\$160,718	\$0	\$1,824,511	\$3,666,618

Program Description

The Administrative Financial Services Division consists of several units. The Director's Office is responsible for overall supervision and coordination of agency programs and administratively attached boards and agencies. The Legal Unit provides legal services to agency and administratively attached programs. The Accounting Bureau is the process owner of the financial portion of the Statewide Budgeting, Accounting and Human Resource Systems (SABHRS), establishes state accounting policies and procedures, administers the federal Cash Management Improvement Act, processes warrants for all state agencies, and prepares the state Comprehensive Annual Financial Report (CAFR). The Management Support Bureau provides financial, budgeting, accounting, personnel, and payroll functions for the department. The Local Government Services Bureau provides technical assistance and training to local government accounting and financial personnel and defines, reviews and enforces auditing requirements for Montana's local governments. The Consumer Protection Office advocates on behalf of Montana's consumers in matters of unfair or deceptive acts in the conduct of any business.

Program Highlights

Department of Administration Administrative Financial Services Division Major Budget Highlights	
<ul style="list-style-type: none"> Total fund budget would increase through adjustments totaling about \$340,000 for the biennium over the base (an average annual increase of 10 percent) <ul style="list-style-type: none"> General fund adjustments account for \$141,000 of the increase (an average annual increase of 6 percent over the base) State special revenue adjustments account for \$185,000 of the increase (an average annual increase of 23 percent over the base) Budget increases are due primarily to: <ul style="list-style-type: none"> Statewide present law adjustments Indirect administrative costs 	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Admin Financial Serv Div						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	\$ 1,154,645	69.4%	\$ 1,233,899	67.0%	\$ 1,216,591	66.7%
02140 Consumer Education Settlement	403,529	24.3%	496,118	26.9%	495,843	27.2%
02317 Financial Advisor Fees	2,989	0.2%	2,989	0.2%	2,989	0.2%
03320 Cmia Funds	35,613	2.1%	41,042	2.2%	41,092	2.3%
03369 Flood Control Payments	22,133	1.3%	22,133	1.2%	22,133	1.2%
03978 Federal Portion Of State Divid	929	0.1%	929	0.1%	929	0.1%
06527 Investment Division	43,955	2.6%	44,997	2.4%	44,934	2.5%
Grand Total	<u>\$ 1,663,793</u>	<u>100.0%</u>	<u>\$ 1,842,107</u>	<u>100.0%</u>	<u>\$ 1,824,511</u>	<u>100.0%</u>

The Administrative Financial Services Division is funded with general fund, state and federal special revenues, and proprietary funds. General fund provides funding for the statewide accounting standards, treasury, and accounting assistance for local governments, and for agency management in support of other programs of the agency funded with general fund. State special revenue provides funding for the Consumer Protection Office, from consumer education settlements and a smaller amount from financial advisor fees. Federal special revenue provides funding for activities associated with the federal Cash Management Improvement Act funds, flood control payments, and the federal portion of State Fund dividends. The division is also funded with a direct appropriation from the Board of Investments proprietary fund for services the Treasury Unit provides to the board.

Most operations of the division are funded with non-budgeted proprietary funds, which are discussed in the "Proprietary Rates" section of the narrative.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2006-----					-----Fiscal 2007-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				181,614					182,397
Vacancy Savings				(57,422)					(57,452)
Inflation/Deflation				(1,533)					(1,510)
Fixed Costs				28,318					9,955
Total Statewide Present Law Adjustments				\$150,977					\$133,390
DP 301 - Indirect/Administrative Costs									
0.00	(3,084)	30,379	42	27,337	0.00	(3,084)	30,370	42	27,328
Total Other Present Law Adjustments									
0.00	(\$3,084)	\$30,379	\$42	\$27,337	0.00	(\$3,084)	\$30,370	\$42	\$27,328
Grand Total All Present Law Adjustments				\$178,314					\$160,718

DP 301 - Indirect/Administrative Costs - A reduction of \$6,168 general fund combined with increases of \$60,749 state special revenue and \$84 federal special revenue for the biennium would fund increases in indirect cost payments for services received from other proprietary funded centralized service functions of the agency.

Proprietary Rates**Legal Services Unit (Fund 06504)****Proprietary Program Description**

The Legal Unit of the Director's Office advises all divisions within the department and those administratively attached to the department on legal matters. An alternative to this program would be contracting for legal assistance or hiring an attorney within the divisions serviced by the unit. The unit receives funding from the general fund and through the legal services internal service fund. Only the portion of the unit funded by the internal service fund is discussed below.

Proprietary Revenues and Expenses

The general fund portion supporting 0.17 FTE is shown on the main budget tables and discussed in the HB 2 portion of the division narrative. The program funds 2.08 FTE with proprietary funds. The Legal Services Unit receives revenues via an allocation of anticipated expenses of the unit to divisions of the department and administratively attached agencies and boards. The allocation is based on a time study of work performed. In FY 2004, revenues of about \$149,000 were received from the following funding sources in the percentages and approximate amounts shown:

- State special revenue (28percent), \$42,000
- Proprietary funds (57 percent), \$87,000
- Trust funds (15 percent), \$20,000

In FY 2004, revenues funded personal services for 2.08 FTE and operating costs. Personal services of approximately \$118,500 comprised 86 percent of expenses, with operating expenses making up the remaining \$19,500 or 14.0 percent of unit expenses.

Allocation of Legal Services Unit anticipated costs is done during July of each fiscal year and rates are developed to recover expenses on a breakeven basis. The figure for fund 06504 shows the financial information for the fund from FY 2002 through FY 2007. In FY 2004, revenues exceeded expensed by \$11,000 primarily due to lower than anticipated personal services expenses because of an accounting adjustment that reduced the liability for compensated absences by booking a negative expense. The effect of the transaction is neutral to fund equity, but is reflected as a \$35,000 reduction of personal services from FY 2003 to FY 2004. No fund balance is required to be reserved for this program. Fund balance at the end of FY 2004 would finance around 33 days of operating expenses.

2007 Biennium Report on Internal Service and Enterprise Funds 2007

Fund	Fund Name	Agency #	Agency Name	Program Name			
6504	Legal Services	6101	Department of Administration	Administrative Financial Services	Actual	Actual	Actual
					FY02	FY03	FY04
					Budgeted	Budgeted	Budgeted
					FY05	FY06	FY07
Operating Revenues:							
Fee revenue							
					-	-	-
					-	-	-
					-	-	-
					-	-	-
	Legal Services				172,409	179,028	149,097
	Net Fee Revenue				172,409	179,028	149,097
	Investment Earnings				-	-	-
	Securities Lending Income				-	-	-
	Premiums				-	-	-
	Other Operating Revenues				29	15	48
	Total Operating Revenue				172,438	179,043	149,145
Operating Expenses:							
	Personal Services				138,066	151,577	118,457
	Other Operating Expenses				14,689	20,183	19,571
	Total Operating Expenses				152,755	171,760	138,028
	Operating Income (Loss)				19,683	7,283	11,117
Nonoperating Revenues (Expenses):							
	Gain (Loss) Sale of Fixed Assets				-	-	-
	Federal Indirect Cost Recoveries				-	-	-
	Other Nonoperating Revenues (Expenses)				-	-	-
	Net Nonoperating Revenues (Expenses)				-	-	-
	Income (Loss) Before Operating Transfers				19,683	7,283	11,117
	Contributed Capital				-	-	-
	Operating Transfers In (Note 13)				-	-	-
	Operating Transfers Out (Note 13)				-	-	-
	Change in net assets				19,683	7,283	11,117
	Total Net Assets- July 1 - As Restated				(30,370)	(10,687)	1,415
	Prior Period Adjustments				-	4,819	-
	Cumulative effect of account change				-	-	-
	Total Net Assets - July 1 - As Restated				(30,370)	(5,868)	1,415
	Net Assets- June 30				(10,687)	1,415	12,532
	60 days of expenses						
	(Total Operating Expenses divided by 6)				25,459	28,627	23,005

Proprietary Rate Explanation

The financial objective of the Legal Services Unit is to operate on a break-even basis. The unit charges other non-general funded divisions in the department and administratively attached agencies a percentage of its operations budget based on a time-use study.

For the 2007 biennium, the executive requests that the legislature approve the rates shown on the Figure 3A. The requested rates are an allocation of Legal Services Unit costs to user programs based on historical usage.

Figure 3A Requested Rates for Legal Services Unit Allocation of Costs			
Program Receiving Allocation	Actual FY 04	Requested FY 06	Requested FY 07
Teachers' Retirement	\$20,071	\$24,571	\$24,571
Personnel Division	21,504	26,324	26,324
Risk Management and Tort Defense	1,434	878	878
General Services	5,018	8,775	8,775
Architecture and Engineering	15,770	19,306	19,306
Information Technology Services	19,354	23,693	23,693
Consumer Protection	35,841	65,814	65,814
Banking Division	8,602	878	878
Lottery	14,336	4,388	4,388
Local Government Services	<u>7,168</u>	<u>7,898</u>	<u>7,898</u>
Total	<u>\$149,098</u>	<u>\$182,525</u>	<u>\$182,525</u>

Warrant Writer Program (Fund 06564)

Proprietary Program Description

The department provides the services of the Warrant Writer Program to state agencies for check writing and automatic-deposit capabilities for financial transactions. The program produces and processes warrants and tracks them on the warrant writer system. The program generates, mails, tracks, and cashes each warrant. The services the program offers include direct deposit, warrant consolidation, stopping of payments, warrant cancellations, emergency warrants, duplicate warrants, warrant certification, warrant research, payee file data, and federal 1099-MISC processing. Because the service is mandated in statute, no alternative exists for agencies that need checks processed and funds transferred to vendors electronically if they use the state accounting system.

Proprietary Revenues and Expenses

In FY 2004, the Warrant Writer Program had revenues of roughly \$845,913 from fees paid by agencies statewide. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (31.5 percent), \$266,000
- State special revenue (16.8 percent), \$142,000
- Federal special revenue (23.0 percent), \$195,000
- Proprietary funds (19.4 percent), \$164,000
- All other funds (9.3 percent), \$79,000

Billing for warrants is done monthly and is based on actual warrants issued. Turnaround time for payment is around 45 days. Working capital is factored into the rate after expenditures are calculated. If working capital is too high, the rates charged to agencies are reduced in order to reduce revenues.

In FY 2004, revenues funded personal services for 6.33 FTE and operating costs. Personal services of roughly \$182,000 accounted for about 20 percent of expenses, with operating costs making up the majority of costs at roughly \$710,000 or nearly 80 percent of unit expenses. Major operating costs are for postage and mailing (\$442,700 or 50 percent of program costs), and warrant printing, warrant stock, and bank service fees (combined are \$179,000 or 20 percent of costs).

The figure for fund 06564 shows the financial information for the fund from FY 2002 through FY 2007. This figure shows that through the 2007 biennium anticipated operating revenues from rates and other charges would be less than the anticipated operating expenses, resulting in operating losses in each year totaling \$75,593 for the 2007 biennium. These losses would deplete fund balance to \$33,024 at the end of the 2007 biennium or 13 days of operating expenses.

Demand for each warrant category is made by comparing two biennia of actual activity to project usage for the upcoming biennium. Mailer warrants factor in warrant stock cost, postage, and printing. Non-mailer warrants factor in warrant stock cost and printing. Both type of warrants pay for the required reconciliation between SABHRS accounts payable module and the state bank account. Direct deposits pay a \$0.05 charge for bank processing. Duplicate and emergency warrants pay for personnel time to process each individual request. All categories share in general operating expenses of the program.

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Fund	Fund Name	Agency #	Agency Name	Program Name						
6564	Warrant Writing	6101	Department of Administration	Administrative Financial Services						
					Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:										
Revenue										
Revenue Warrant Writing Fee					922,385	880,435	845,913	873,501	873,501	873,501
Revenue from Fee B					-	-	-	-	-	-
Revenue from Fee C					-	-	-	-	-	-
Revenue from Fee D					-	-	-	-	-	-
Revenue from Fee E					-	-	-	-	-	-
Revenue from Fee F					-	-	-	-	-	-
Net Fee Revenue					922,385	880,435	845,913	873,501	873,501	873,501
Investment Earnings					-	-	-	-	-	-
Securities Lending Income					-	-	-	-	-	-
Premiums					-	-	-	-	-	-
Other Operating Revenues					98	-	107	-	-	-
Total Operating Revenue					922,483	880,435	846,020	873,501	873,501	873,501
Operating Expenses:										
Personal Services					142,713	155,908	181,893	197,914	206,984	206,828
Other Operating Expenses					590,346	718,835	709,874	700,929	719,793	688,990
Total Operating Expenses					733,059	874,743	891,767	898,843	926,777	895,818
Operating Income (Loss)					189,424	5,692	(45,747)	(25,342)	(53,276)	(22,317)
Nonoperating Revenues (Expenses):										
(Gain) Sale of Fixed Assets					-	-	-	-	-	-
Federal Indirect Cost Recoveries					-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)					-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)					-	-	-	-	-	-
Income (Loss) Before Operating Transfers					189,424	5,692	(45,747)	(25,342)	(53,276)	(22,317)
Contributed Capital					-	-	-	-	-	-
Operating Transfers In (Note 13)					-	-	-	-	-	-
Operating Transfers Out (Note 13)					-	-	-	-	-	-
Change in net assets					189,424	5,692	(45,747)	(25,342)	(53,276)	(22,317)
Total Net Assets- July 1 - As Restated					(36,353)	173,810	179,706	133,959	108,617	55,341
Prior Period Adjustments					(40)	204	-	-	-	-
Cumulative effect of account change					20,779	-	-	-	-	-
Total Net Assets - July 1 - As Restated					(15,614)	174,014	179,706	133,959	108,617	55,341
Net Assets- June 30					173,810	179,706	133,959	108,617	55,341	33,024
Operating Expenses										
Operating Expenses divided by 6)					122,177	145,791	148,628	149,807	154,463	149,303

Proprietary Rate Explanation

Figure 3B shows the rates requested for the Warrant Writer Program.

Figure 3B Requested Rates for Warrant Writer			
	Actual FY 04	Requested FY 06	Requested FY 07
Mailer	\$0.586245	\$0.583310	\$0.580890
Non-Mailer	\$0.178030	\$0.181590	\$0.017917
Emergency	\$4.267590	\$4.702280	\$4.701700
Duplicates	\$5.639485	\$6.039980	\$6.039390
Externals	\$0.155230	\$0.155750	\$0.153330
Direct Deposit	\$0.155990	\$0.155780	\$0.155100

Management Services Unit (Funds 06534 and 06570)

Proprietary Program Description

The Management Services Unit coordinates preparation of the department's biennial budget for submission to the Office of Budget and Program Planning (OBPP) and presentation to the legislature, processes budget change documents on approved budgets through OBPP, monitors approved budgets for compliance with state law and legislative intent, processes payroll and provides new employee orientation for all divisions within the department, including attached-to agencies, assists with staff recruitment and selection, classifies positions, and develops personnel policies and procedures. This unit also provides accounting assistance to the non-general funded divisions within the department. The director's office is funded through the unit. An alternative to this unit would be to hire budgeting, accounting, and human resource staff within each program in the department.

The unit now consists of the combined Management Services Unit and the Human Resources Unit, which were reviewed separately by 2003 Legislature.

Proprietary Revenues and Expenses

In FY 2004, the unit had revenues of roughly \$626,537 from fees paid by divisions served. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (9.6 percent), \$60,400
- State special revenue (11.9 percent), \$74,300
- Federal special revenue (0.7 percent), \$4,300
- Proprietary funds (75.4 percent), \$472,100
- Trust funds (2.4 percent), \$15,300

Expenses consist of personal services and operating expenses. In FY 2004 personal services of \$ 486,845 accounted for 84 percent of total expenses and funded 9.75 FTE. Major operating expenses that account for more than 1.0 percent of total expenses are rent for state-owned buildings at \$27,500 or 4.8 percent; indirect and administrative costs to other proprietary funded programs of the agency at \$15,000 or 2.6 percent; and data network service charges paid to the Information Technology Services Division of the agency at about \$9,600 or 1.7 percent.

The Management Services Unit bills users monthly, which requires the program to operate with around 45 days of working capital. Working capital is factored into the rate after expenditures are calculated. If working capital is too high, the rates that generate the revenue are reduced. No fund balance is required to be reserved for this program. Fund balance at the end of FY 2003 was negative after the two units were combined, but rates approved for the 2005 biennium restored a positive balance to the fund. The rates requested for the 2007 biennium would provide operating gains and increase fund balance.

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Fund	Fund Name	Agency #	Agency Name	Program Name
6534	Management Services	6101	Department of Administration	Administrative Financial Services
6570	Human Resources Unit			

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:						
Fee revenue	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Service Fees	175,483	173,584	626,537	626,913	713,842	713,450
Net Fee Revenue	175,483	173,584	626,537	626,913	713,842	713,450
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	288	-	-	-
Total Operating Revenue	175,483	173,584	626,825	626,913	713,842	713,450
Operating Expenses:						
Personal Services	166,267	148,384	486,845	540,248	560,546	559,050
Other Operating Expenses	27,399	25,847	91,162	116,585	90,324	89,710
Total Operating Expenses	193,666	174,231	578,007	656,833	650,870	648,760
Operating Income (Loss)	(18,183)	(647)	48,818	(29,920)	62,972	64,690
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(18,183)	(647)	48,818	(29,920)	62,972	64,690
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(18,183)	(647)	48,818	(29,920)	62,972	64,690
Total Net Assets- July 1 - As Restated	18,363	(12,856)	(8,818)	40,000	10,080	73,052
Prior Period Adjustments	-	4,685	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	18,363	(8,171)	(8,818)	40,000	10,080	73,052
Net Assets- June 30	180	(8,818)	40,000	10,080	73,052	137,742
60 days of expenses (Total Operating Expenses divided by 6)	32,278	29,039	96,335	109,472	108,478	108,127

Proprietary Rate Explanation

The executive requests the legislature approve rates shown on Figure 3C, which lists the rates requested to fund the unit for the 2007 biennium and the rates approved for FY 2004. The rate methodology for allocation costs to users has changed from those approved by the 2003 Legislature. For the 2005 biennium, the legislature approved rates that were fixed allocations of costs to user programs. For the 2007 biennium, the executive requests rates that are more closely tied to factors that drive demand for services of the unit. As stated, human resources costs would be recovered through rates tied to user program FTE counts, and the rest of costs for the unit would be based on a fixed percentage of agency appropriations.

Figure 3C			
Rates Requested for the Management Services Unit			
Rate Description or Program Receiving Allocation	FY 2004	Requested FY 2006	Requested FY 2007
Portion of unit not for human resources			
Administrative Financial Services	\$53,239	\$43,478	\$43,478
Architecture and Engineering	8,792	8,608	8,608
General Services Division	78,474	104,288	104,288
Information Technology Services Division	237,023	238,276	238,276
State Personnel Division	21,165	22,260	22,260
Risk Management and Tort Defense	39,534	45,020	45,020
Banking Division	28,612	30,875	30,875
Lottery	29,397	33,892	33,892
State Tax Appeal Board	4,250	4,436	4,436
Appellate Defender	2,733	2,644	2,644
Montana Consensus Council	<u>3,920</u>	<u>3,715</u>	<u>3,715</u>
Total allocation to user programs	<u>\$507,139</u>	<u>\$537,492</u>	<u>\$537,492</u>
Portion of unit for human resources			
Teachers Retirement Board	5,278		
Public Employee Retirement Board	10,062		
Administrative Financial Services	9,568		
Architecture and Engineering	5,608		
General Services Division	27,525		
Banking Division	8,247		
Lottery	10,556		
Risk Management and Tort Defense	5,278		
Information Technology Services Division	29,690		
State Personnel Division	6,928		
Montana Consensus Council	<u>660</u>		
Total allocation to user programs	<u>\$119,400</u>		
Charge per FTE of user programs		\$476	\$475

**LFD
ISSUE**
Rates Are Too High

The program has no requirement to reserve the fund balance and it only needs a 45-day working capital balance. The figure for the fund indicates the net assets would increase above 60 days of operating expenses. The legislature may wish to reduce the rates so the revenues generated are more balanced with operating expenses. Based on the financial information in the figure for the fund and the rates requested, it appears that if the FY 2007 allocation of costs for the portion of the unit not for human resources were reduced by 8 percent and the per FTE charge for the human resources portion were reduced to \$437 in FY 2007, the balance would be limited to 60 days of working capital.

The legislature has the following options for approving rates for the unit:

- Approve the rates as proposed by the executive
- If the legislature wants to impact the revenues of the unit to lower the operating gains in FY 2007 so the net assets are less than 60 days, approve rates lower than requested and as determined above

Audit Review Program (Fund 06042)**Proprietary Program Description**

The Audit Review program is responsible for administering the provisions of the Montana Single Audit Act (MSAA), which specifies the audit requirements for all Montana local governments entities (2-7-5, MCA). The program performs the following services:

- Mails out to and receives annual financial reports from approximately 900 local governments
- Enters selected financial data from the reports into a database
- Obtains and enters into the database information regarding school district revenues
- Determines which local government entities are subject to audit under the Act and notifies them of the audit requirements
- Accepts applications from and maintains a roster of independent auditors authorized to conduct local government audits
- Prepares and keeps current a legal compliance supplement for use by independent auditors in conducting local government audits
- Receives and approves audit contracts for local government audits
- Verifies that all local governments required to have audits do so
- Receives and reviews local government audit reports to determine whether the audits have been conducted in accordance with required standards
- Notifies state agencies of audit findings related to financial assistance programs that they administer
- Receives and reviews each local government's response to the audit report findings and determines whether the entity has developed a satisfactory plan to correct deficiencies noted in the audit report
- Maintains copies of all local government entity audit reports and the local governments responses to audit findings, and makes those reports and responses available upon request to state and federal agencies and the public
- Provides technical advice on accounting, auditing, and legal compliance matters to local governments and certified public accountants conducting local government audits
- Investigates or refers to auditors for follow-up action complaints or allegations received from the public, either directly or through the Legislative Auditor's hotline

Proprietary Revenues and Expenses

The Audit Review Program receives revenues from two fees:

- The report filing fee, required by 2-7-514, MCA, is based upon costs incurred by the department for administering the Audit Review Program. All local government entities that are required to submit audits pay the filing fee.
- A roster fee is collected from auditors for their inclusion on a roster of independent auditors who are authorized to audit local government entities in Montana.

The program incurs operating expenses for personal services and operating costs. In FY 2004 personal services were nearly \$200,000 or 67.3 percent of total operating costs. Operating expenses of nearly \$97,000 made up the remaining 32.7 percent of total expenses. The fee revenues support a staff of 4.00 FTE.

The figure for fund 06042 shows the revenues, expenses, and fund balance for the audit review proprietary fund from FY 2002 through FY 2007.

Proprietary Rate Explanation

The Audit Review Program is funded with two fees: 1) audit report filing fee; and 2) annual auditor roster fee. The program also received reimbursement from audited entities for costs to contract for special audits as requested. It is the intent of the program to maintain fees sufficient to pay program costs at current level staffing. Because the Audit Review Program is funded with an enterprise type proprietary fund, the legislature does not approve the fees for the program. Instead, fees are established in administrative rule. The Audit Review program does not receive any direct appropriations. Funding is derived entirely from the fees described below, except for occasional fee reimbursements for special audits or reviews, as discussed in more detail below.

Audit Report Filing Fee

The audit report filing fee is required by 2-7-514, MCA. The fee schedule has been adopted as ARM 2.4.402 and summarized on Figure 3D.

Figure 3D		
Audit Report Filing Fees		
Annual Revenue Between		Fee
\$0.00 and	\$199,999.99	\$0
200,000.00 and	499,999.99	175
500,000.00 and	999,999.99	375
1,000,000.00 and	1,499,999.99	525
1,500,000.00 and	2,499,999.99	600
2,500,000.00 and	4,999,999.99	675
5,000,000.00 and	9,999,999.99	725
10,000,000.00 and	greater	775

The above fee schedule provided \$266,800 in revenue for FY 2004. No changes to the fee schedule are currently planned.

Annual Auditor Roster Fee

The annual auditor roster fee is provided for by 2-7-506, MCA. The annual auditor roster fee has been adopted as ARM 2.4.406. The current fee in the rule is \$50 per year. There are no plans to change the fee, which provides approximately \$3,000 per year in revenue.

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	17.00	0.00	0.00	17.00	0.00	0.00	17.00	17.00
Personal Services	860,497	69,406	0	929,903	68,141	0	928,638	1,858,541
Operating Expenses	301,654	22,588	0	324,242	21,310	0	322,964	647,206
Equipment	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$1,162,151	\$91,994	\$0	\$1,254,145	\$89,451	\$0	\$1,251,602	\$2,505,747
State/Other Special	1,150,609	103,536	0	1,254,145	100,993	0	1,251,602	2,505,747
Capital Projects	11,542	(11,542)	0	0	(11,542)	0	0	0
Total Funds	\$1,162,151	\$91,994	\$0	\$1,254,145	\$89,451	\$0	\$1,251,602	\$2,505,747

Program Description

The Architecture & Engineering Program manages remodeling and construction of state buildings. Its functions include planning new projects and remodeling projects; advertising, bidding, and awarding construction contracts; administering contracts with architects, engineers, and contractors; disbursing building construction payments; and providing design services for small projects. The program also formulates a long-range building plan for legislative consideration each session.

Program Highlights

Department of Administration Architecture & Engineering Program Major Budget Highlights	
<ul style="list-style-type: none"> Total fund budget would increase through adjustments totaling \$181,445 for the biennium over the base (an average annual increase of 7.8 percent) due primarily to: <ul style="list-style-type: none"> Statewide present law adjustments Increases in indirect costs to fund payments to centralized service programs of the agency funded with proprietary funds 	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table						
Architecture & Engineering						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
02030 Arch & Engin Construction	\$ 1,150,609	99.0%	\$ 1,254,145	100.0%	\$ 1,251,602	100.0%
05007 Long Range Building Program	11,542	1.0%	-	-	-	-
Grand Total	<u>\$ 1,162,151</u>	<u>100.0%</u>	<u>\$ 1,254,145</u>	<u>100.0%</u>	<u>\$ 1,251,602</u>	<u>100.0%</u>

The Architecture & Engineering Program is funded with funds transferred from the long-range building capital projects fund to a state special revenue account established for administrative expenses.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2006-----					-----Fiscal 2007-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					108,152					106,835
Vacancy Savings					(38,746)					(38,694)
Inflation/Deflation					(14,125)					(14,075)
Fixed Costs					31,408					30,098
Total Statewide Present Law Adjustments					\$86,689					\$84,164
DP 301 - Indirect Administrative Costs	0.00	0	5,305	0	5,305	0.00	0	5,287	0	5,287
Total Other Present Law Adjustments	0.00	\$0	\$5,305	\$0	\$5,305	0.00	\$0	\$5,287	\$0	\$5,287
Grand Total All Present Law Adjustments					\$91,994					\$89,451

DP 301 - Indirect Administrative Costs - An increase of \$10,592 state special revenue for the biennium is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	9.95	0.90	0.00	10.85	0.90	0.00	10.85	10.85
Personal Services	427,589	80,368	0	507,957	80,061	0	507,650	1,015,607
Operating Expenses	107,917	15,907	0	123,824	12,384	0	120,301	244,125
Transfers	500,000	0	0	500,000	0	0	500,000	1,000,000
Debt Service	32,050	0	0	32,050	0	0	32,050	64,100
Total Costs	\$1,067,556	\$96,275	\$0	\$1,163,831	\$92,445	\$0	\$1,160,001	\$2,323,832
General Fund	567,556	96,275	0	663,831	92,445	0	660,001	1,323,832
Capital Projects	500,000	0	0	500,000	0	0	500,000	1,000,000
Total Funds	\$1,067,556	\$96,275	\$0	\$1,163,831	\$92,445	\$0	\$1,160,001	\$2,323,832

Program Description

The General Services Division is composed of four bureaus responsible for providing certain internal services to government agencies and the public.

The Facilities Management Bureau manages the following services for state agencies in the capitol complex and several state-owned buildings in the Helena area either directly or through the administration of service contracts: repair, maintenance, construction, energy consumption, disaster response and recovery, space allocation, lease negotiation, security, janitorial, recycling, pest control, and garbage collection.

The State Procurement Bureau procures or supervises the procurement of all supplies and services, and provides technical assistance to government agencies and the public to ensure compliance with the Montana Procurement Act.

The Print Services Bureau provides printing services to state agencies by operating a central facility for duplicating and binding, desktop publishing, layout and design, graphic illustration, and forms design. It operates three quick-copy centers, administers the state photocopy pool, and approves the procurement of all printing and printing-related purchases for state agencies.

Mail services for state agencies in the Helena area are provided through a centralized facility that manages incoming, outgoing, and interagency mail. In addition, the bureau operates a full service contract United States post office in the state capitol building. The Property and Supply Bureau manages the Central Stores program and the state and federal surplus property programs. The division also manages the state's vehicle fueling, energy procurement, and procurement card functions.

Program Highlights

Department of Administration General Services Division Major Budget Highlights	
<ul style="list-style-type: none"> General fund budget would increase through adjustments totaling nearly \$189,000 for the biennium over the base (an average annual increase of 17 percent) due primarily to: <ul style="list-style-type: none"> Statewide present law adjustments The addition of 1.00 FTE contract officer to address workload issues 	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table						
General Services Program						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	\$ 567,556	53.2%	\$ 663,831	57.0%	\$ 660,001	56.9%
05008 Capitol Building Sr	<u>500,000</u>	<u>46.8%</u>	<u>500,000</u>	<u>43.0%</u>	<u>500,000</u>	<u>43.1%</u>
Grand Total	<u>\$ 1,067,556</u>	<u>100.0%</u>	<u>\$ 1,163,831</u>	<u>100.0%</u>	<u>\$ 1,160,001</u>	<u>100.0%</u>

The General Services Division is funded with general fund, capitol land grant trust fund, and proprietary funds. General fund provides funding for the procurement bureau and facilities maintenance functions for common areas of the Capitol Building, office space for the Senate and House of Representatives, Governor's mansion, public display areas in the Historical Society Museum, and some office space in the museum building. Capitol land grant trust fund would be used to supplement only the general fund support for common areas.

The following programs are funded with proprietary funds and are not shown on the main budget tables but are discussed in the proprietary rates section for the division:

- Mail services
- Print services
- Property and supply
- Central stores
- Facilities management
- Surplus property
- State fueling network
- State procurement card

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2006-----						-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					54,993					54,871
Vacancy Savings					(19,303)					(19,298)
Inflation/Deflation					(66)					(64)
Fixed Costs					7,225					6,700
Total Statewide Present Law Adjustments					\$42,849					\$42,209
DP 301 - Indirect Administrative Costs	0.00	1,333	0	0	1,333	0.00	1,333	0	0	1,333
DP 604 - Increase FTE in State Procurement Bureau	1.00	56,828	0	0	56,828	1.00	53,677	0	0	53,677
DP 608 - Fund Switch	(0.10)	(4,735)	0	0	(4,735)	(0.10)	(4,774)	0	0	(4,774)
Total Other Present Law Adjustments										
	0.90	\$53,426	\$0	\$0	\$53,426	0.90	\$50,236	\$0	\$0	\$50,236
Grand Total All Present Law Adjustments					\$96,275					\$92,445

DP 301 - Indirect Administrative Costs - - An increase of \$2,666 general fund for the biennium is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

DP 604 - Increase FTE in State Procurement Bureau - An increase of \$110,505 general fund for the biennium is requested to fund the addition of 1.00 FTE contracts officer and operating costs to address increased workload of the State Procurement Bureau. Workload has increased with the increased value and complexity of contracts going to the private sector by state agencies.

**LFD
COMMENT***Growth of Consulting and Professional Services*

Total fund expenditures on the statewide accounting system for the consulting and professional services expenditure account have grown from \$103 million in FY 2000 to \$134 million in FY 2003. In FY 2004, expenditures declined to \$122 million. The additional FTE would address the workload increases that have resulted from the increased contracting by agencies.

DP 608 - Fund Switch - A reduction of \$9,509 general fund for the biennium is requested to move 0.10 FTE purchasing agent from funding in HB 2 to proprietary funding in the State Procurement Card Program.

Proprietary Program Description

The General Services Division provides the following functions funded with proprietary fund. These programs are described below along with a discussion of the program revenues, expenses, and rates being requested to finance the programs:

- Facilities management
- Mail services
- Print services
- Surplus property
- Central Stores
- Statewide Fueling Network
- Procurement Card

Facilities Management Bureau (Fund 06528)

Proprietary Program Description

The Facilities Management of the state capitol. The bureau provides facilities management assistance, including repair, maintenance, and construction services to state agencies in the Helena area and provides statewide leasing assistance to agencies to negotiate co-location of agencies to procure leased space for field offices. The bureau also manages the office waste paper products recycling program in the Helena area. The program serves all agencies and units within state government.

Proprietary Revenues and Expenses

In FY 2004, the Facilities Management Bureau had revenues of roughly \$5.9 million from rent payments paid by tenant agencies. Rent payments make up 94.8 percent of revenues for the bureau, revenue collected from construction cost recovery adds about 3.6 percent to revenues, and recycling revenue provides the remaining 1.6 percent. These rent payments were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (45.5 percent), \$2,685,000
- State special revenue (15.8 percent), \$936,000
- Federal special revenue (17.7 percent), \$1,045,000
- Proprietary funds (20.4 percent), \$1,203,000
- All other funds (0.7 percent), \$37,000

Also in FY 2004, a transfer of \$500,000 from capitol land grant trust fund revenues funded additional operations of the program. This same amount is also planned for FY 2005.

In FY 2004, revenues funded personal services for 22.10 FTE and operating costs. Personal services of roughly \$950,000 million were 15 percent of expenses. The lion's share of costs was for operating expenses amounting to \$5.3 million or 85 percent of program expenses. Operating expenses are comprised of utilities, repair and maintenance, and contracted services. The program contracts for these functions: insurance, janitorial, mechanical, elevator, pest control, and security services. All contracted costs are expected to increase in the 2007 biennium due to anticipated increases in fire sprinkler inspection costs, new janitorial contracts, and prevailing wage increases applied to the mechanical contract.

Significant increases above the FY 2004 expense level that are included in the rates for the 2007 biennium are the following:

- Insurance and bonds would increase about \$200,000 each year for an increase of 73 percent on a base of about \$275,000, primarily due to the insurance for the Capitol Building asset values being raised and due to increases in boiler and machinery equipment
- Fire suppression services would increase about \$16,000 each year for an increase of 387 percent on a base of about \$4,000 that funded a one-time equipment inspection. Cost increases are due to costs to initiate an annual inspection and testing program for fire suppression equipment
- Janitorial services would increase about \$198,000 in FY 2007 for an increase of 23 percent on a base of about \$854,000, due to higher costs anticipated when new service contracts are negotiated for FY 2007. Contract costs are anticipated to increase due to prevailing wages and higher contractor insurance and bonding costs
- Shop supplies would increase about \$19,000 each year for an increase of 67 percent on a base of about \$28,000
- Electricity would increase about \$192,000 in FY 2006 for an increase of 19 percent on a base of about \$1,000,000, but would only increase \$57,000 in FY 2007 or 6 percent above the base
- Natural gas would increase an average of \$236,000 each year for an increase of 58 percent on a base of about \$400,000
- Repair and maintenance of buildings and grounds would increase about \$90,000 each year for an increase of 14 percent on a base of about \$638,000
- Taxes and assessments would increase about \$3,000 each year for an increase of 7 percent on a base of about \$43,000, due to increases in local assessments for street and sidewalk maintenance, and storm water and water quality districts

Increases for electricity and natural gas are factored into rates to recover losses experienced from higher costs experienced during the current biennium that were not included in the rates for the 2005 biennium.

The figure for fund 06528 shows the financial information for the fund from FY 2002 through FY 2007. This figure shows operating revenues from fees and charges are less than operating expenses and would result in operating losses in every year. However, planned transfers from the capitol land grant trust fund have been used since the 2003 biennium to balance the fund and are used to fund qualifying maintenance activities that improve or extend the life of the facilities. As a result, the fund balance at the end of the 2007 biennium is projected to be adequate to finance 37 days of operating expenses.

Proprietary Rate Explanation

Rent is assessed on a cost per square foot basis to each agency occupying space in the buildings controlled by the Department of Administration. The rates are established to cover the cost of personal services and operating expenses including maintenance and equipment. Project work completed for agencies by in-house staff or contracted with an outside vendor is on a cost recovery basis.

Figure 6A shows the historical rates and requested rates requested for the 2007 biennium.

Figure 6A Facilities Management Bureau Base and Requested Rates			
	Actual FY 2004	Requested FY 2006	Requested FY 2007
Office Rent (per sq. ft.)	\$5.988	\$6.613	\$6.681
Warehouse Rent (per sq. ft.)	2.270	3.901	3.969
Project Mgmt (In-house)	15%	15%	15%
Project Mgmt (Contracted)	5%	5%	5%

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Fund	Fund Name	Agency #	Agency Name	Program Name
6528	Rent & Maintenance	6101	Department of Administration	General Services Division

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:						
Fee revenue						
Revenue from Office Rental Rate	-	-	-	5,673,204	6,359,180	6,423,608
Revenue from Warehouse Rental Rate	-	-	-	215,404	366,940	373,336
Revenue from Recycling Revenue	-	-	-	10,000	20,000	20,000
Revenue from Handyman Charges	-	-	-	45,000	50,000	50,000
Revenue from Project Work	-	-	-	55,000	70,000	70,000
Revenue from Fee F	-	-	-	-	-	-
Net Fee Revenue	5,231,914	4,874,173	5,905,695	6,094,870	6,866,120	6,936,944
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	339	55	420	-	-	-
Total Operating Revenue	5,232,253	4,874,228	5,906,115	6,094,870	6,866,120	6,936,944
Operating Expenses:						
Personal Services	887,837	930,895	949,052	1,036,378	1,062,537	1,061,557
Other Operating Expenses	4,564,464	4,595,466	5,209,407	5,510,947	6,303,600	6,367,215
Total Operating Expenses	5,452,301	5,526,361	6,158,459	6,547,325	7,366,137	7,428,772
Operating Income (Loss)	(220,048)	(652,133)	(252,344)	(452,455)	(500,017)	(491,828)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(220,048)	(652,133)	(252,344)	(452,455)	(500,017)	(491,828)
Contributed Capital	26,522	-	-	-	-	-
Operating Transfers In (Note 13)	933,055	933,055	500,000	500,000	500,000	500,000
Operating Transfers Out (Note 13)	(418,000)	(492,000)	-	-	-	-
Change in net assets	321,529	(211,078)	247,656	47,545	(17)	8,172
Total Net Assets- July 1 - As Restated	207,289	631,127	467,480	716,607	764,152	764,135
Prior Period Adjustments	102,309	47,431	1,471	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	309,598	678,558	468,951	716,607	764,152	764,135
Net Assets- June 30	631,127	467,480	716,607	764,152	764,135	772,307
60 days of expenses (Total Operating Expenses divided by 6)	908,717	921,060	1,026,410	1,091,221	1,227,690	1,238,129

Significant Present Law Adjustments

Rates for office space rent would increase an average of 11 percent for each year over the FY 2004 level, while rates for warehouse space rent would increase an average of 73 percent for each year. Increases in both office and warehouse space rent are primarily attributed to cost increases identified above for the more significant expense items. The largest increases in expenses would be associated with utilities, contracted services, and facilities repair and maintenance, which combined comprise roughly 80 percent of the costs for the program. However, the executive has evaluated the methodology for allocating costs between office and warehouse rent and has allocated more costs to warehouse rent that previously were only recovered in office space rental rates. Previously, only utility costs were allocated to warehouse rental rates, but with more demands for other services in warehouse operations, other facility costs associated with warehouse activity have been allocated to the warehouse rates for the 2007 biennium. The reallocation of costs between warehouse and office spaces has resulted in lower increases for office space rates than would have occurred without the change in cost allocation, but has resulted in a near doubling of warehouse rates.

Significant New Proposals

The rates for office space rent in the 2007 biennium include costs to contract with the Information Technology Services Division of the department to manage the security database for building access security systems. The \$40,000 cost for each year to contract for a security database manager would add \$0.025 per square foot to the cost of office space rent.

Print and Mail Services Bureau (Fund 06530)**Proprietary Program Description**

The Print and Mail Services Bureau provides printing, mail services, duplicating, desktop publishing, layout and design, graphic and illustrative art, forms design, reprographics, binding and quick copy, and photocopier pools services for state agencies. The bureau has seven basic components: 1) internal printing; 2) external (contracted) printing; 3) photocopy pool; 4) mail preparation; 5) central mail operations; 6) inter-agency (deadhead mail); and 7) postal contract station with locked mail boxes in the Capitol. Customers include all agencies and units within state government. Use of the photocopy pool is optional. A state agency may buy its own copier through the State Procurement Bureau. All printing or purchasing of printing is requested through print services, which determines the most cost effective method of project completion. Not all requests for printing are completed internally. Nearly 65 percent of printing expenditures are procured through commercial vendors. The Postal Contract Station provides mail services to the public. On July 1, 2003 the two separate funds of Print Services (06530) and Mail Services (06253) merged into one fund, Print and Mail Services (06530).

Proprietary Revenues and Expenses

The Print and Mail Services Bureau provides all services as presented in the program description. Seven basic service categories provide revenues for the operations of the program in the following percentages:

- Internal printing charges user agencies for graphic design and layout, desktop publishing, reprographics, duplicating, bindery, and quick copy – 13.7 percent of revenue
- External printing procures printing through commercial vendors – 34.5 percent of revenue
- Photocopy pool provides state agencies with photocopiers – 9.0 percent of revenue
- Mail preparation prepares documents for mailing and includes tabbing, labeling, inkjet addressing, inserting, and bar coding – 3.4 percent of revenues
- Central mail operations, which include mail pick-up and delivery in agency offices, metering of out-going U.S. Mail, United Parcel Services (UPS), and express mail services – 37.4 percent of revenue
- Inter-agency (deadhead) mail provides sorting and delivery of incoming mail and pickup and delivery of deadhead mail – 1.5 percent of revenue
- Postal contract station located at the Capitol provides postal services to the public – 0.5 percent of revenue

In FY 2004, Print and Mail Services Bureau had revenues of roughly \$8.6 million from fees paid by agencies statewide. The payments for these revenues were accounted in agency expenditures to several different expenditure accounts. Some of the expenditure accounts used to account for payments to the bureau are used to account for activities that are not associated with the bureau or its revenues, such as expenditures for postage and mailing, in which agencies may pay postage costs without using bureau services. Because there is not a one-for-one relationship between the revenues received for bureau services and the expenditures coded to the state accounting system for the payment of the services received from the bureau, approximations based on statewide spending for related items were used to provide an estimate of the sources of funds used to finance the services of the Print and Mail Services Bureau. Figure 6B shows the approximate FY 2004 funding and funding percentages used to make payments to the bureau for printing and mail services so the legislature can see how expenses and rates of the bureau impact other funds of bureau users.

Figure 6B						
Funding for Payments to Print and Mail Services						
	General Fund	State Special Revenue	Federal Special Revenue	Proprietary	Other	Total
Photocopy Pool						
Source amount	\$192,000	\$256,000	\$203,000	\$103,000	\$22,000	<u>\$776,000</u>
Source percentage	25%	33%	26%	13%	3%	
Messenger Services						
Source amount	47,000	23,000	19,000	30,000	8,000	<u>\$127,000</u>
Source percentage	37%	18%	15%	24%	6%	
Mail Preparation and Central Mail (Combined)						
Source amount	943,000	1,195,000	700,000	577,000	92,000	<u>\$3,507,000</u>
Source percentage	27%	34%	20%	16%	3%	
Internal and External Printing (Combined)						
Source amount	726,000	1,919,000	934,000	451,000	114,000	<u>\$4,144,000</u>
Source percentage	18%	46%	23%	11%	3%	

In FY 2004, revenues funded personal services for 42.70 FTE, operating costs, and equipment. Personal services of \$1.1 million were roughly 13.3 percent of expenses, with operating costs of \$7.2 million or 84.2 percent, and equipment of \$222,000 or 2.5 percent accounting for the remaining expenses of the bureau.

Major internal printing costs, excluding personal services, are for direct materials used in production, such as paper and ink, equipment repair and maintenance, and equipment replacement. Historical demand by agencies for printing services has remained fairly consistent with higher demand cycles when the legislature is in session. There are no changes or significant growth expected in the demand pattern. Unscheduled equipment repair or replacement provided the greatest amount of uncertainty to forecasting costs for internal printing.

For external printing the major expenses are pass-through costs of commercial print vendors. These costs have historically remained fairly consistent, but vary depending upon complexity and quantity of agency print projects.

Major expenses for the photocopy pool are pass-through photocopy costs, such as payments made to contracted vendors and personnel services.

Overhead costs for administration, accounting, and supplies are allocated to six of Print and Mail Services Bureau service categories based on FTE. The Capitol Post Office contract does not allow reimbursement for overhead costs.

The figure for fund 06530 shows the financial information for the fund from fiscal 2002 through fiscal 2007, including revenues, expenses, and fund equity balances.

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Fund	Fund Name	Agency #	Agency Name	Program Name
6530	Print & Mail Services	6101	Department of Administration	General Services

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:						
Fee revenue						
Internal Printing	1,363,722	1,513,709	1,177,102	1,389,102	1,177,102	1,389,102
External Printing	3,032,916	2,808,792	2,967,083	3,000,000	3,000,000	3,000,000
Photocopy Pool	820,396	777,976	775,990	790,990	775,990	790,990
Mail Preparation	-	-	292,058	321,264	321,264	321,264
Mail Operations	3,347,566	3,233,887	3,214,786	3,233,887	3,174,976	3,194,077
Inter-agency (Deadhead Mail)	168,063	166,389	127,631	125,648	165,458	165,458
Postal Contract Station	38,976	38,976	38,976	38,976	38,976	38,976
Net Fee Revenue	8,771,639	8,539,729	8,593,626	8,899,867	8,653,766	8,899,867
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	675	3	730	-	-	-
Total Operating Revenue	8,772,314	8,539,732	8,594,356	8,899,867	8,653,766	8,899,867
Operating Expenses:						
Personal Services	1,232,658	1,285,905	1,140,013	1,554,298	1,397,679	1,474,852
Other Operating Expenses	7,238,826	6,907,119	7,237,806	6,992,812	7,287,780	7,531,451
Equipment	330,558	154,494	221,808	442,563	221,808	221,808
Total Operating Expenses	8,802,042	8,347,518	8,599,627	8,989,673	8,907,267	9,228,111
Operating Income (Loss)	(29,728)	192,214	(5,271)	(89,806)	(253,501)	(328,244)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(21,002)	(20,215)	(1,947)	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(21,002)	(20,215)	(1,947)	-	-	-
Income (Loss) Before Operating Transfers	(50,730)	171,999	(7,218)	(89,806)	(253,501)	(328,244)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(50,730)	171,999	(7,218)	(89,806)	(253,501)	(328,244)
Total Net Assets- July 1 - As Restated	1,624,707	1,573,977	1,747,429	1,669,079	1,579,273	1,325,772
Prior Period Adjustments	-	1,453	(71,132)	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	1,624,707	1,575,430	1,676,297	1,669,079	1,579,273	1,325,772
Net Assets- June 30	1,573,977	1,747,429	1,669,079	1,579,273	1,325,772	997,528
60 days of expenses (Total Operating Expenses divided by 6)	1,467,007	1,391,253	1,433,271	1,498,279	1,484,545	1,538,019

Proprietary Rate Explanation

For the 2007 biennium, the executive requests the legislature not approve specific rates for the operations of the Print and Mail Services Bureau, but an operating parameter that limits the program from charging rates that collect more than 60 days of working capital. Figures 6C through 6G show the historic and budgeted rates from FY 2002 through FY 2007. The rates that would actually be charged to users are not expected to change except for the allocation of bureau costs for the inter-agency mail services. The inter-agency mail allocation is expected to increase by 29.6 percent for each year of the 2007 biennium from the FY 2004 level of \$127,631.

**LFD
COMMENT***Implication of the Proposed Rates*

If the legislature approves the proposed working capital rates, the bureau would be free to adjust rates as needed to maintain the working capital balance. Increases in program costs would be passed on to users as higher rates for services. The fixed cost budgets in agencies are based upon current program costs. Therefore, any increased costs would have to be absorbed by the agencies.

**LFD
ISSUE***Inter-agency Mail Rate*

Previously, the legislature has approved a maximum allocation of inter-agency mail costs as the rate for the service. As requested, the rate would now be bundled with the 60-day working capital rate requested for the remaining operations of the Print and Mail Services Bureau.

The legislature may wish to approve the allocation of inter-agency mail costs separately instead of bundling this service with the working capital rate requested for the bureau. Approving a maximum level at which inter-agency costs can be allocated to users would establish an upper limit on costs the agencies pay, would align the revenues for the inter-agency mail portion of the bureau with the budgets agencies have for paying for the service, and would provide an incentive for the program to manage program expenses.

The executive has included allocations of \$162,180 for each year of the 2007 biennium in agency budgets. The legislature may want to approve the same level as the rates for inter-agency mail.

For a further discussion of rates based on maintaining a working capital level, refer to the agency narrative section.

Figure 6C

Historical and Budgeted Rates

Internal Printing

Fee Group	Actual FY 2002	Actual FY20 03	Actual FY 2004	Budgeted FY 2005	Budgeted FY 2006	Budgeted FY 2007
1-20	\$0.055	\$0.055	\$0.059	\$0.059	\$0.059	\$0.059
21-100	0.024	0.024	0.026	0.026	0.026	0.026
101-1000	0.012	0.012	0.015	0.015	0.015	0.015
1001-5000	0.006	0.006	0.006	0.006	0.006	0.006
5000 +	0.003	0.003	0.003	0.003	0.003	0.003
Collating Machine	.006/sheet	0.006	0.006	0.006	0.006	0.006
Collating Hand	.50/min	0.5	0.5	0.5	0.5	0.5
Stapling Hand	.015/staple	0.015	0.015	0.015	0.015	0.015
Stapling In-line	.01/set	.01/set	.01/set	.01/set	.01/set	.01/set
Saddle Stitch	.03/set	.03/set	.03/set	.03/set	.03/set	.03/set
Folding	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht
Folding Right Angle	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht
Folding In-line	.03/set	.03/set	.03/set	.03/set	.03/set	.03/set
Punching St 3 hole	.001/sht	.001/sht	.001/sht	.001/sht	.001/sht	.001/sht
Punching Non St	3.00+.001/sht	3.00+.001/sht	3.00+.001/sht	3.00+.001/sht	3.00+.001/sht	3.00+.001/sht
Cutting	.55/min	.55/min	.55/min	.55/min	.55/min	.55/min
Padding	.002/sheet	.002/sheet	.002/sheet	.002/sheet	.002/sheet	.002/sheet
Scoring, perf, num	5.00+Dup rate	5.00+Dup rate	5.00+Dup rate	5.00+Dup rate	5.00+Dup rate	5.00+Dup rate
Perfect Binding	15.00+.55/min	15.00+.55/min	15.00+.55/min	15.00+.55/min	15.00+.55/min	15.00+.55/min
Tape Binding	.50/each	.50/each	.50/each	.50/each	.50/each	.50/each
Tabs	.50/set	.50/set	.50/set	.50/set	.50/set	.50/set
Transparencies	.50/each	.50/each	.50/each	.50/each	.50/each	.50/each
Tabbing	.01/each	.01/each	---	---	---	---
Address Labels	.01/each	.01/each	---	---	---	---
Ink Jet Address	.03/each	.03/each	---	---	---	---
Shrink Wrapping	.25/each	.25/each	.25/each	.25/each	.25/each	.25/each
Hand Bindery	.50/min	.50/min	.50/min	.50/min	.50/min	.50/min
Graphic Arts	32.00/hr	32.00/hr	36.00/hr	36.00/hr	36.00/hr	36.00/hr
Negatives Stripped						
10x12	11.30	11.30	11.30	11.30	11.30	11.30
12x20	19.15	19.15	19.15	19.15	19.15	19.15
20x24	34.85	34.85	34.85	34.85	34.85	34.85

Figure 6D

Historical and Budgeted Rates

Internal Printing (continued)

Fee Group	Actual FY 2002	Actual FY20 03	Actual FY 2004	Budgeted FY 2005	Budgeted FY 2006	Budgeted FY 2007
Negatives Stripped						
Halftone						
10x12	16.05	16.05	16.05	16.05	16.05	16.05
PMT's Positive						
10x12	6.65	6.65	6.65	6.65	6.65	6.65
12x20	13.35	13.35	13.35	13.35	13.35	13.35
20x24	26.70	26.70	26.70	26.70	26.70	26.70
PMT's Halftone						
10x12	10.15	10.15	10.15	10.15	10.15	10.15
Metal Plates						
8.5x11	8.00	8.00	10.00	10.00	10.00	10.00
11x17	9.00	9.00	20.00	20.00	20.00	20.00
Silver Plates						
8.5x11	7.00	7.00	8.00	8.00	8.00	8.00
11x17	8.00	8.00	9.00	9.00	9.00	9.00
CTP Plates						
8.5x11	---	---	8.00	8.00	8.00	8.00
11x17	---	---	9.00	9.00	9.00	9.00

Figure 6E Historical and Budgeted Rates External Printing and Photocopy Pool						
Fee Group	Actual FY 2002	Actual FY20 03	Actual FY 2004	Budgeted FY 2005	Budgeted FY 2006	Budgeted FY 2007
External Printing Percent of Invoice						
Mark-up	6%	6%	6%	6%	6%	6%
Photocopy Pool Copier Monthly Charge						
Level 1	\$42.00	\$42.00	\$42.00	\$42.00	\$42.00	\$42.00
Level 2	99.60	99.60	99.60	99.60	99.60	99.60
Level 3	190.80	190.80	190.80	190.80	190.80	190.80
Level 4	238.00	238.80	238.80	238.80	238.80	238.80
Level 5	343.20	343.20	343.20	343.20	343.20	343.20
Level 6	448.80	448.80	448.80	448.80	448.80	448.80
Level 7	483.60	483.60	483.60	483.60	483.60	483.60
Optional Features For Digital Copiers						
Level 2						
Print Cost per page	0.0132	0.0132	0.0132	0.0132	0.0132	0.0132
Print Controller	43.20	43.20	43.20	43.20	43.20	43.20
4.3 GB Hrd Disk Dr	10.80	10.80	10.80	10.80	10.80	10.80
Postscript Print	15.60	15.60	15.60	15.60	15.60	15.60
Fax Cost per Page	0.0132	0.0132	0.0132	0.0132	0.0132	0.0132
Fax Option	27.60	27.60	27.60	27.60	27.60	27.60
Dual Phone Line	16.80	16.80	16.80	16.80	16.80	16.80
32mb Fax Memory	7.20	7.20	7.20	7.20	7.20	7.20
JBIG Function Upg	10.80	10.80	10.80	10.80	10.80	10.80
Internal Exit Tray	8.40	8.40	8.40	8.40	8.40	8.40
Level 3						
Print Cost per Page	0.0132	0.0132	0.0132	0.0132	0.0132	0.0132
Print Controller	79.20	79.20	79.20	79.20	79.20	79.20
Post Script	32.40	32.40	32.40	32.40	32.40	32.40
9 Bin Mailbox	68.40	68.40	68.40	68.40	68.40	68.40
Mailbox Bridge Unit	14.40	14.40	14.40	14.40	14.40	14.40
Fax Cost per Page	0.0132	0.0132	0.0132	0.0132	0.0132	0.0132
Fax Option	30.00	30.00	30.00	30.00	30.00	30.00
JBIG/Fax Upg	10.80	10.80	10.80	10.80	10.80	10.80
63 Interface Unit	18.00	18.00	18.00	18.00	18.00	18.00
32mb Fax Memory	4.80	4.80	4.80	4.80	4.80	4.80
Fax Handset	2.40	2.40	2.40	2.40	2.40	2.40
Internal Exit Tray	12.00	12.00	12.00	12.00	12.00	12.00

Figure 6F
Historical and Budgeted Rates
Photocopy Pool (Continued)

Fee Group	Actual FY 2002	Actual FY20 03	Actual FY 2004	Budgeted FY 2005	Budgeted FY 2006	Budgeted FY 2007
Level 4						
Print Cost Per Copy	0.0132	0.0132	0.0132	0.0132	0.0132	0.0132
Print Controller	79.20	79.20	79.20	79.20	79.20	79.20
Post Script Print	32.40	32.40	32.40	32.40	32.40	32.40
9 Bin Mail Box	68.40	68.40	68.40	68.40	68.40	68.40
Mailbox Bridge Unit 14.40	14.40	14.40	14.40	14.40	14.40	14.40
Fax Cost Per Page	0.0132	0.0132	0.0132	0.0132	0.0132	0.0132
Fax Option	30.00	30.00	30.00	30.00	30.00	30.00
JBIG Fax Upgrade	10.80	10.80	10.80	10.80	10.80	10.80
63 Interface Unit	18.00	18.00	18.00	18.00	18.00	18.00
32mb Fax Memory	4.80	4.80	4.80	4.80	4.80	4.80
Fax Handset	2.40	2.40	2.40	2.40	2.40	2.40
Internal Exit Tray	12.00	12.00	12.00	12.00	12.00	12.00
Level 5						
Print Cost per Page	0.0132	0.0132	0.0132	0.0132	0.0132	0.0132
Print Controller	67.20	67.20	67.20	67.20	67.20	67.20
Post Script Print	49.20	49.20	49.20	49.20	49.20	49.20
Ethernet NIC	15.60	15.60	15.60	15.60	15.60	15.60
9 Bin Mail Box	68.40	68.40	68.40	68.40	68.40	68.40
Mailbox Bridge Unit	14.40	14.40	14.40	14.40	14.40	14.40
32mb Print Memory	6.00	6.00	6.00	6.00	6.00	6.00
64mb Print Memory	12.00	12.00	12.00	12.00	12.00	12.00
128mb Print Memory	14.40	14.40	14.40	14.40	14.40	14.40
Level 6						
Print Cost per Page	0.0132	0.0132	0.0132	0.0132	0.0132	0.0132
Print Controller	67.20	67.20	67.20	67.20	67.20	67.20
Post Script Print	49.20	49.20	49.20	49.20	49.20	49.20
Ethernet NIC	15.60	15.60	15.60	15.60	15.60	15.60
9 Bin Mailbox	68.40	68.40	68.40	68.40	68.40	68.40
Mailbox Bridge Unit	14.40	14.40	14.40	14.40	14.40	14.40
32mb Print Memory 6.00	6.00	6.00	6.00	6.00	6.00	6.00
64mb Print Memory	12.00	12.00	12.00	12.00	12.00	12.00
128mb Print Mem	14.40	14.40	14.40	14.40	14.40	14.40
Level 7						
Print Cost per Page	0.0132	0.0132	0.0132	0.0132	0.0132	0.0132
Print Controller	67.20	67.20	67.20	67.20	67.20	67.20
Post Script	49.20	49.20	49.20	49.20	49.20	49.20
Ethernet NIC	15.60	15.60	15.60	15.60	15.60	15.60
9 Bin Mailbox	68.40	68.40	68.40	68.40	68.40	68.40
Mailbox Bridge Unit	14.40	14.40	14.40	14.40	14.40	14.40
32mb Print Memory	6.00	6.00	6.00	6.00	6.00	6.00
64mb Print Memory	12.00	12.00	12.00	12.00	12.00	12.00
128mb Print Memory	14.40	14.40	14.40	14.40	14.40	14.40

Figure 6G						
Historical and Budgeted Rates						
Mail Preparation, Mail Operations, Inter-agency Mail, Capitol Post Office						
Fee Group	Actual FY 2002	Actual FY20 03	Actual FY 2004	Budgeted FY 2005	Budgeted FY 2006	Budgeted FY 2007
Mail Preparation						
Tabbing	---	---	.01 each	.01 each	.01 each	.01 each
Labeling	---	---	.01 each	.01 each	.01 each	.01 each
Ink Jet	---	---	.03 each	.03 each	.03 each	.03 each
Inserting	---	---	.01 each	.01 each	.01 each	.01 each
Winsort	---	---	.05 each	.05 each	.05 each	.05 each
Mail Operations Service Type (each)						
Machinable	0.05	0.05	0.03	0.03	0.03	0.03
Non-Machinable	0.08	0.08	0.06	0.06	0.06	0.06
Post cards	0.04	0.04	0.04	0.04	0.04	0.04
Certified Mail	0.50	0.50	0.40	0.40	0.40	0.40
Registered Mail	0.50	0.50	0.40	0.40	0.40	0.40
Internatl Mail	0.50	0.50	0.25	0.25	0.25	0.25
Flats	0.15	0.15	0.08	0.08	0.08	0.08
Priority	0.50	0.50	0.40	0.40	0.40	0.40
Express Mail	0.50	0.50	0.40	0.40	0.40	0.40
USPS Parcels	0.15	0.15	0.25	0.25	0.25	0.25
Insured mail	0.50	0.50	0.40	0.40	0.40	0.40
Media Mail	0.15	0.15	0.25	0.25	0.25	0.25
Bulk Mail	0.06	0.06	0.10	0.10	0.10	0.10
Postage Due	0.45	0.45	0.05	0.05	0.05	0.05
Fee Due	0.45	0.45	0.05	0.05	0.05	0.05
Tapes	0.15	0.15	0.15	0.15	0.15	0.15
UPS Parcels	0.15	0.15	0.15	0.15	0.15	0.15
Inter-agency Mail						
Dollars-yearly	\$ 168,063	\$ 166,389	\$ 127,631	\$ 125,648	\$ 165,458	\$ 165,458
Postal Contract (Capitol)						
Dollars-yearly	\$ 38,976	\$ 38,976	\$ 38,976	\$ 38,976	\$ 38,976	\$ 38,976

Central Stores Program (Fund 06531)

Proprietary Program Description

The Central Stores Program develops standard specifications, procures, warehouses, and delivers commonly used items to all state agencies and participating local governments. Customers include all agencies and units within state government and participating local governments.

Section 18-4-302(3), MCA, mandates state agencies to use central stores unless the publicly advertised price of an alternate supplier, established catalog price, or discount price offered to the agency is less than the price offered by the stores program, as long as the office supply conforms in all material respects to the terms, conditions and quality offered by the stores program. Local governments are not mandated to use central stores.

Proprietary Revenues and Expenses

In FY 2004, central stores had revenues of \$4.3 million from purchases by state agencies and local governments. Of these revenues \$2.9 million are recorded on the state accounting system as agency expenditures. The revenues from state sources were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (39.7 percent), \$1,162,000
- State special revenue (27.3 percent), \$799,000
- Federal special revenue (18.0 percent), \$529,000
- Proprietary funds (13.8 percent), \$404,000
- All other funds (1.2 percent), \$35,000

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Fund	Fund Name	Agency #	Agency Name	Program Name
6531	Central Stores	6101	Department of Administration	General Services Division

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:						
Fee revenue						
Central Stores Supplies	-	-	-	4,280,000	4,280,000	4,280,000
Revenue from Fee B	-	-	-	-	-	-
Revenue from Fee C	-	-	-	-	-	-
Revenue from Fee D	-	-	-	-	-	-
Revenue from Fee E	-	-	-	-	-	-
Revenue from Fee F	-	-	-	-	-	-
Net Fee Revenue	4,864,224	4,152,577	4,282,084	4,280,000	4,280,000	4,280,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	384	-	211	-	-	-
Total Operating Revenue	4,864,608	4,152,577	4,282,295	4,280,000	4,280,000	4,280,000
Operating Expenses:						
Personal Services	358,026	363,263	328,451	374,340	478,212	477,837
Other Operating Expenses	4,199,979	4,026,120	4,299,761	4,233,275	4,385,734	4,378,401
Total Operating Expenses	4,558,005	4,389,383	4,628,212	4,607,615	4,863,946	4,856,238
Operating Income (Loss)	306,603	(236,806)	(345,917)	(327,615)	(583,946)	(576,238)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(523)	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(523)	-	-	-	-	-
Income (Loss) Before Operating Transfers	306,080	(236,806)	(345,917)	(327,615)	(583,946)	(576,238)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	306,080	(236,806)	(345,917)	(327,615)	(583,946)	(576,238)
Total Net Assets- July 1 - As Restated	1,067,277	1,373,357	1,136,285	791,252	463,637	(120,309)
Prior Period Adjustments	-	(266)	884	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	1,067,277	1,373,091	1,137,169	791,252	463,637	(120,309)
Net Assets- June 30	1,373,357	1,136,285	791,252	463,637	(120,309)	(696,547)
60 days of expenses (Total Operating Expenses divided by 6)	759,668	731,564	771,369	767,936	810,658	809,373

Program expenses are for personal services and operating expenses. In FY 2004, the program funded 10.25 FTE with personal services of about \$328,000 that comprised roughly 7 percent of total expenses and operating expenses of \$4,300,000 that accounted for the remaining 93 percent of total expenses. Of total expenses, \$4.2 million or 87 percent was used to purchase goods for resale.

The figure for fund 06531 shows the financial information for the fund from FY 2002 through FY 2007. The figure shows that in FY 2002 central stores received \$306,600 more revenues than expenses or 6.7 percent of annual expenses. This operating gain increased the fund equity to nearly \$1.4 million or 30 percent of FY 2002 expenses. The fund has since generated operating losses in each subsequent year and is projected to be in a deficit position with net assets of nearly (\$700,000) by the end of the 2007 biennium.

Proprietary Rate Explanation

For the 2007 biennium, the executive requests the legislature not approve specific markup rates for central stores, but an operating parameter that limits the program from charging rates that collect more than 60 days of working capital.

LFD ISSUE

Central Stores – Future Plans

Subsequent to submission of the budget, the executive has made a decision to move the Central Stores Program from a state run business to the private sector.

In order to privatize the program, the requirements of 2-8-302 through 2-8-304, MCA, must be met to develop a privatization plan and hold public hearings on the plan. The executive also has to deal with the lease for the central stores warehouse and staff reduction issues as they move to privatization of the program. Since the decision has just been made and a contract has not been awarded to provide the service, little information is available on contract conditions or costs. A study prepared by a private consultant was considered in making the decision and proposing a 2 percent markup rate to fund the operations.

The rate of 2 percent markup of retail costs is similar to the method other states have used to fund contract administration and order consolidation activities when they moved to private sourcing for central stores functions. The plan would retain 2.00 FTE of the current Central Stores staff to oversee contract activities and consolidate orders of central stores purchases.

As such, the rates proposed would no longer be valid. The legislature may want to approve a 2 percent markup on retail cost to fund administration of the privatized program.

The legislature may want to ask the executive to provide an overview of the decision to privatize the operation, identify the costs and functions that would be funded with the 2 percent rate, and describe the plans for future direction of the Central Stores function.

Figure 6H shows the historic and budgeted rates in the Central Stores Program. The rates on the figure are shown for information. The figure shows that markups on six high volume products finance the operating costs for the program. The program anticipates increasing the markup on five of the six items from 10 percent (FY 2004) to 25 percent (2007 biennium).

Figure 6H Central Stores Historical and Budgeted Rates						
	Actual FY 2002	Actual FY 2003	Actual FY 2004	Budgeted FY 2005	Budgeted FY 2006	Budgeted FY 2007
Forms	100%	100%	100%	100%	100%	100%
Office Supplies	20%	10%	10%	20%	25%	25%
Computer Paper	20%	10%	10%	20%	25%	25%
Fine Paper	20%	10%	10%	20%	25%	25%
Coarse Paper	20%	10%	10%	20%	25%	25%
Janitorial	20%	10%	10%	20%	25%	25%

Statewide Fueling Network Program (Fund 06561)**Proprietary Program Description**

The Statewide Fueling Network Program provides for fueling of public vehicles through an integrated commercial and public fueling network. The program automates the accounting and transaction processing functions associated with vehicle fueling, maintains agency tax-exempt status for transactions anywhere on the network, and provides monthly comprehensive fuel management reports that fleet managers can use to track and control fuel costs. Customers include state government agencies and local government entities.

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Fund	Fund Name	Agency #	Agency Name	Program Name		
6561	Statewide Fueling Network	6101	Department of Administration	General Services Division		

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:						
Fee revenue						
Statewide Fueling Network	24,019	28,639	21,063	42,000	42,000	42,000
Net Fee Revenue	24,019	28,639	21,063	42,000	42,000	42,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	83	20	-	-	-
Total Operating Revenue	24,019	28,722	21,083	42,000	42,000	42,000
Operating Expenses:						
Personal Services	-	-	28,098	33,503	33,708	33,947
Other Operating Expenses	23,552	14,257	9,902	23,778	8,932	8,853
Total Operating Expenses	23,552	14,257	38,000	57,281	42,640	42,800
Operating Income (Loss)	467	14,465	(16,917)	(15,281)	(640)	(800)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	467	14,465	(16,917)	(15,281)	(640)	(800)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	50,886	-	-
Operating Transfers Out (Note 13)	-	-	-	(50,886)	-	-
Change in net assets	467	14,465	(16,917)	(15,281)	(640)	(800)
Total Net Assets- July 1 - As Restated	5,466	8,468	22,933	6,016	(9,265)	(9,905)
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	2,535	-	-	-	-	-
Total Net Assets - July 1 - As Restated	8,001	8,468	22,933	6,016	(9,265)	(9,905)
Net Assets- June 30	8,468	22,933	6,016	(9,265)	(9,905)	(10,705)
60 days of expenses						
(Total Operating Expenses divided by 6)	3,925	2,376	6,333	9,547	7,107	7,133

Proprietary Revenues and Expenses

In FY 2004, the Statewide Fueling Network Program had revenues of about \$21,000 from an administration fee charged on fuel purchased through the network based on statewide purchases of gasoline. These revenues were received from the following funding sources in the percentages and amounts listed:

- General fund (9.3 percent), \$2,000
- State special revenue (18.8 percent), \$4,000
- Federal special revenue (3.9 percent), \$800
- Proprietary funds (67.5 percent), \$14,000
- All other funds (0.5 percent), \$100

In FY 2004, revenues funded about 0.60 FTE, personal services, and operating costs. Personal services of nearly \$28,100 accounted for 74 percent of total expenses and operating costs of \$9,900 accounted for the remaining 26 percent. Personal services were moved from being funded with general fund to being funded with the statewide fueling network proprietary fund by the 2003 Legislature to eliminate the general fund subsidy for the program. When the subsidy was eliminated, the rates were not adjusted above their previous levels to fund the increased expenses.

The figure for fund 06561 shows the financial information for the fund from FY 2002 through FY 2007. The figure shows that with the rates requested by the executive operating losses would occur in each year of the 2007 biennium. Rates charged have remained the same since FY 2000 and the program indicates the rates would remain the same for the 2007 biennium. During this same period, gasoline purchases by state agencies have grown from \$3.7 million to \$5.2 million in FY 2004 for a growth of 40.5 percent and revenues from the Statewide Fueling Network fee have grown from \$16,103 to a high of \$28,036 in FY 2003 for a 77.8 percent growth over the FY 2000 level. FY 2004 revenues were \$21,062 or 30.8 percent above the FY 2000 level.

Proprietary Rate Explanation

For the 2007 biennium, the executive requests the legislature approve a rate based on an operating parameter that limits the program from charging rates that collect more than 45 days of working capital.

LFD ISSUE

Alternative Rate Approach for Statewide Fueling Program

The legislature may want to ask the executive to justify why legislative approval of the actual rate charged to the users of the program imposes an unreasonable burden on the program. For further discussion of working capital rates, refer to the proprietary rates section in the agency narrative.

The 2003 Legislature approved a 0.5 percent rate for the 2005 biennium based on a recommendation from the executive. The program indicated it anticipates continuing to charge the same rate during the 2007 biennium. As stated, state agency purchases of gasoline have increased by 40.5 percent from FY 2000 to FY 2004, while revenues of the program have increased 30.8 percent during the same period. While the same rate will be charged, the program anticipates revenues will nearly double from the FY 2004 level. Unless some unknown factor causes state agencies to purchase more gasoline, the revenue estimates appear unlikely. If lower revenues are collected than are anticipated, the fund will be even further out of balance than shown in the figure for the fund.

Given the financial condition of the account and the likelihood that the program would need to raise rates, and would be free to do so if a working capital rate is approved, the legislature may want to consider approving a fixed percentage of gross purchases rate as has been approved in the past. If the legislature chooses to approve a fixed percentage of gross purchases rate, it may wish to request the program propose a rate appropriate to fund the Statewide Fueling Network in a stable financial condition.

The figure for the fund indicates revenues from fees are expected to double from the FY 2004 level without any fee change. There is no basis for any change in revenues without changing the fees. In order to double the revenues and then in each year of the 2007 biennium make up for a portion of the deficit anticipated for FY 2005, the fee would have to be increased to 1.25 percent for both FY 2006 and FY 2007.

State Procurement Card Program (Fund 06571)

Proprietary Program Description

The State Procurement Card Program administers the state procurement contract for the automated processing of small purchases.

Proprietary Revenues and Expenses

The figure for fund 06571 shows the financial information for the fund from FY 2002 through FY 2007. This figure shows revenues from fees paid by customers of \$1,875 for FY 2004. Because agencies record expenditures for fees paid to the State Procurement Card Program using the same expenditure account as other maintenance contract costs, the funding of agency payments is not readily determined. The program also receives volume discount rebates from vendors due to the aggregation of purchases through the program. In FY 2004, the volume discount rebated was \$9,112.

In FY 2004, program expenses totaled \$26,023 and were comprised of personal services and operating expenses. Personal services of about \$9,400 comprises 36 percent of total program expenses and funds about 0.20 FTE. Major operating expenses are for maintenance costs, computer programming charges, and travel expenses.

Proprietary Rate Explanation

The legislature has for the past three biennia approved an administrative fee rate of \$1.00 per card per month as the rate for the State Procurement Card Program. For the 2007 biennium, the executive requests the legislature approve a rate based on an operating parameter that limits the program from charging rates that collect more than 45 days of working capital.

LFD ISSUE

Alternative Rate Approach for Procurement Card Program

The legislature may want to ask the executive to justify why legislative approval of the actual rate charged to the users of the program imposes an unreasonable burden on the program. For further discussion of working capital rates, refer to the proprietary rates section in the agency narrative.

The program has charged agencies the same \$1 per card per month rate and indicated it anticipates continuing to charge the same rate during the 2007 biennium. In FY 2004, the program depleted a previously high working capital balance by charging a fee for the cards. The fee was reinstated in FY 2005 and is anticipated for each year of the 2007 biennium. The figure for the fund also indicates that the fund would stabilize with a small, near breakeven balance at the end for FY 2007 with the \$1 card fee. Charging a fixed fee of \$1 per card doesn't place an unreasonable burden on the program that justifies the legislature relinquishing its statutory authority to approve fees and charges for the program. As such, the legislature may want to approve a \$1 per card fee instead of a working capital rate.

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Fund	Fund Name	Agency #	Agency Name	Program Name				
6571	Procurement Card Purchases	6101	Department of Administration	General Services Division				
			Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:								
Fee revenue								
Procurement Card			8,988	13,129	1,875	11,736	11,736	11,736
Net Fee Revenue			8,988	13,129	1,875	11,736	11,736	11,736
Investment Earnings			-	-	-	-	-	-
Securities Lending Income			-	-	-	-	-	-
Premiums			-	-	-	-	-	-
Other Operating Revenues			5,480	9,578	9,112	9,200	9,200	9,200
Total Operating Revenue			14,468	22,707	10,987	20,936	20,936	20,936
Operating Expenses:								
Personal Services			-	-	9,351	-	4,735	4,774
Other Operating Expenses			8,135	23,132	16,672	23,792	16,289	16,244
Total Operating Expenses			8,135	23,132	26,023	23,792	21,024	21,018
Operating Income (Loss)			6,333	(425)	(15,036)	(2,856)	(88)	(82)
Nonoperating Revenues (Expenses):								
Gain (Loss) Sale of Fixed Assets			-	-	-	-	-	-
Federal Indirect Cost Recoveries			-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)			-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)			-	-	-	-	-	-
Income (Loss) Before Operating Transfers			6,333	(425)	(15,036)	(2,856)	(88)	(82)
Contributed Capital			-	-	-	-	-	-
Operating Transfers In (Note 13)			-	-	-	-	-	-
Operating Transfers Out (Note 13)			-	-	-	-	-	-
Change in net assets			6,333	(425)	(15,036)	(2,856)	(88)	(82)
Total Net Assets- July 1 - As Restated			12,592	18,925	18,500	3,464	608	520
Prior Period Adjustments			-	-	-	-	-	-
Cumulative effect of account change			-	-	-	-	-	-
Total Net Assets - July 1 - As Restated			12,592	18,925	18,500	3,464	608	520
Net Assets- June 30			18,925	18,500	3,464	608	520	438
60 days of expenses								
(Total Operating Expenses divided by 6)			1,356	3,855	4,337	3,965	3,504	3,503

Significant Adjustments for the 2005 Biennium

The executive included a new proposal for an increase of \$9,509 for the biennium to switch funding for 0.10 FTE from general fund to the state procurement card proprietary fund.

Surplus Property Program (Fund 06066)

Proprietary Program Description

The Property and Supply Bureau operates the surplus property program to administer the sale of state and federal surplus property no longer needed by agencies. The federal surplus program acquires surplus property from federal agencies. This property is distributed to state agencies or other eligible organizations. The surplus property programs provide a mechanism to transfer surplus property between agencies and extend the life of state property. The program provides accountability in the disposal of surplus state property, provides agencies with a service to pick surplus equipment, and provides an in-state screening service to locate federal surplus property for state agencies and local governments.

Proprietary Revenues and Expenses

The state surplus property programs receive revenues by charging a handling fee applied to the proceeds from the sale of state property. The federal surplus property program receives revenue in accordance with a federal plan of operations approved by the federal General Services Administration. In FY 2004 the program had operating revenues from federal surplus handling fees of about \$78,800 and from the state handling fees of \$223,100. This is compared with expenses of about \$331,300. The major expenses associated with the surplus property program are personal services and costs to pick up and warehouse property. In FY 2004 the program had 6.90 FTE, but because of vacancies in 2.50 FTE, only 4.40 FTE were funded through user fees.

The figure for fund 06066 shows the financial information for the fund from FY 2002 through FY 2007.

Proprietary Rate Explanation

The state surplus property program retains a handling fee for property sold. If property is sold for less than \$200, the program retains the proceeds. The program retains \$200 plus unusual expenses for property sold for \$200-\$2,000, and 10 percent plus unusual expenses for property that is sold for more than \$2,000.

The federal surplus property program fees are an allocation of freight expense and 14 percent of acquisition cost. This is included in the Federal Plan of Operation, which has been approved by the Federal General Services Administration.

Because the program operates with funding from an enterprise type proprietary fund, the legislature does not approve rates.

2007 Biennium Report on Internal Service and Enterprise Funds 2007									
Fund	Fund Name	Agency #	Agency Name	Program Name					
6066	Surplus Property	6101	Department of Administration	General Services					
				Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:									
Fee revenue									
State Surplus Property Handling Fee				-	-	-	-	290,000	290,000
Federal Surplus Property Handling Fee				-	-	-	-	5,000	5,000
Revenue from Fee C				-	-	-	-	-	-
Revenue from Fee D				-	-	-	-	-	-
Revenue from Fee E				-	-	-	-	-	-
Revenue from Fee F				-	-	-	-	-	-
Net Fee Revenue				295,399	416,032	301,978	295,000	295,000	295,000
Investment Earnings				-	-	-	-	-	-
Securities Lending Income				-	-	-	-	-	-
Premiums				-	-	-	-	-	-
Other Operating Revenues				-	-	101	-	-	-
Total Operating Revenue				295,399	416,032	302,079	295,000	295,000	295,000
Operating Expenses:									
Personal Services				227,446	229,695	191,286	192,500	195,000	195,000
Other Operating Expenses				228,279	143,745	140,025	112,000	139,832	139,291
Total Operating Expenses				455,725	373,440	331,311	304,500	334,832	334,291
Operating Income (Loss)				(160,326)	42,592	(29,232)	(9,500)	(39,832)	(39,291)
Nonoperating Revenues (Expenses):									
Gain (Loss) Sale of Fixed Assets				(1,137)	(11,182)	(4,877)	-	-	-
Federal Indirect Cost Recoveries				-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)				-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)				(1,137)	(11,182)	(4,877)	-	-	-
Income (Loss) Before Operating Transfers				(161,463)	31,410	(34,109)	(9,500)	(39,832)	(39,291)
Contributed Capital				(325,062)	(431,769)	(100,273)	-	-	-
Operating Transfers In (Note 13)				-	-	-	-	-	-
Operating Transfers Out (Note 13)				-	-	-	-	-	-
Change in net assets				(486,525)	(400,359)	(134,382)	(9,500)	(39,832)	(39,291)
Total Net Assets- July 1 - As Restated				123,858	624,187	223,828	89,446	79,946	40,114
Prior Period Adjustments				(598)	-	-	-	-	-
Cumulative effect of account change				987,452	-	-	-	-	-
Total Net Assets - July 1 - As Restated				1,110,712	624,187	223,828	89,446	79,946	40,114
Net Assets- June 30				624,187	223,828	89,446	79,946	40,114	823
60 days of expenses									
(Total Operating Expenses divided by 6)				75,954	62,240	55,219	50,750	55,805	55,715

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	5.00	0.00	4.00	9.00	0.00	4.00	9.00	9.00
Personal Services	321,010	(4,674)	220,161	536,497	(4,601)	221,094	537,503	1,074,000
Operating Expenses	620,277	(14,246)	4,769,000	5,375,031	(16,340)	669,000	1,272,937	6,647,968
Equipment	206,340	0	150,000	356,340	0	150,000	356,340	712,680
Grants	0	0	1,160,000	1,160,000	0	1,160,000	1,160,000	2,320,000
Total Costs	\$1,147,627	(\$18,920)	\$6,299,161	\$7,427,868	(\$20,941)	\$2,200,094	\$3,326,780	\$10,754,648
General Fund	156,341	(5,723)	4,400,000	4,550,618	(6,690)	300,000	449,651	5,000,269
State/Other Special	0	0	1,400,833	1,400,833	0	1,401,336	1,401,336	2,802,169
Federal Special	991,286	(13,197)	498,328	1,476,417	(14,251)	498,758	1,475,793	2,952,210
Total Funds	\$1,147,627	(\$18,920)	\$6,299,161	\$7,427,868	(\$20,941)	\$2,200,094	\$3,326,780	\$10,754,648

Program Description

Information Technology Services Division (ITSD) is a proprietary program that manages central computing and telecommunications services for state government. ITSD provides central mainframe and mid-tier computer services, and manages the statewide data network SummitNet, used by all agencies throughout the state. ITSD provides local and long-distance telephone network services used by all agencies, including the university system, and manages the state's video network METNET. ITSD coordinates electronic government services for the state, and manages the states Internet presence at the Internet address discoveringmontana.com. ITSD also manages the Statewide Accounting, Budgeting, and Human Resources Systems (SABHRS) system for the state.

Through the office of the chief information officer, the division develops the Statewide Strategic IT Plan, coordinates information technology for the state, and reviews and approves equipment and software acquisitions. The division also provides statewide information technology training, and supports consulting services contracts used by agencies in support of IT systems.

The division also coordinates geographic information systems (GIS) development, manages the state's 911 programs, and coordinates public safety communications issues.

Program Highlights

<p>Department of Administration Information Technology Services Division Major Budget Highlights</p>
<ul style="list-style-type: none"> • Total fund budget would increase through adjustments totaling \$8.5 million for the biennium over the base (average annual increases of over 3.5 times the base) • General fund budget would increase through adjustments totaling \$4.7 million for the biennium over the base (average annual increases of 15 times the base of \$156,000) • State special revenue budget would increase through adjustments totaling \$2.8 million for the biennium with no expenditures in the base • Federal special revenue budget would increase through adjustments totaling just under \$1million for the biennium over the base (an

- average annual increase of 50 percent)
- Significant budget increases for general fund are for:
 - Emergency telecommunications infrastructure (\$4.1 million)
 - Public safety communications program funding switch from federal special revenue and program increase (\$600,000)
- Significant budget increases for state special revenue are for:
 - Montana Land Information Act (\$2.8 million)
- Significant budget increases for federal special revenue are for:
 - Montana Spatial Data Infrastructure (\$1.4 million)
- Personal services would increase by 4.00 FTE in HB 2 positions for:
 - Public safety communications program computer analysts
 - Montana Land Information Act

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Information Tech Serv Division						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	\$ 156,341	13.6%	\$ 4,550,618	61.3%	\$ 449,651	13.5%
02779 Montana Land Information	-	-	1,400,833	18.9%	1,401,336	42.1%
03428 Gis Federal Funding	69,598	6.1%	772,728	10.4%	772,427	23.2%
03796 Public Safety Communications	921,688	80.3%	703,689	9.5%	703,366	21.1%
Grand Total	<u>\$ 1,147,627</u>	<u>100.0%</u>	<u>\$ 7,427,868</u>	<u>100.0%</u>	<u>\$ 3,326,780</u>	<u>100.0%</u>

Funding for the division is provided primarily with a proprietary fund that is not shown on the main budget tables, but is discussed in the proprietary rates section that follows the discussion of budget program activity. The HB 2 budgeted portion of the division is funded with general fund and federal special revenue. The division receives general fund to operate the Statewide 911 Emergency Telephone System. Federal special revenue funds GIS coordination work within the division. Funding from state special revenue would be added in the 2007 biennium with legislative approval of the executive request for funding associated with the proposed Montana Land Information Act.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2006-----					-----Fiscal 2007-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				8,506						8,582
Vacancy Savings				(13,180)						(13,183)
Inflation/Deflation				(268)						(258)
Fixed Costs				(8,742)						(10,846)
Total Statewide Present Law Adjustments				(\$13,684)						(\$15,705)
DP 301 - Indirect Administrative Costs										
0.00	(828)	0	(4,408)	(5,236)	0.00	(828)	0	(4,408)	(5,236)	
Total Other Present Law Adjustments										
0.00	(\$828)	\$0	(\$4,408)	(\$5,236)	0.00	(\$828)	\$0	(\$4,408)	(\$5,236)	
Grand Total All Present Law Adjustments				(\$18,920)						(\$20,941)

DP 301 - Indirect Administrative Costs - Reductions of \$1,656 general fund and \$8,816 federal special revenue for the biennium are requested for allocation changes and increase made for indirect cost payments for services received from proprietary funded centralized service functions of the agency.

New Proposals

New Proposals										
-----Fiscal 2006-----					-----Fiscal 2007-----					
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 718 - MSDI Federal Request										
07	0.00	0	0	707,000	707,000	0.00	0	0	707,000	707,000
DP 719 - Montana Land Information Act (Requires Legislation)										
07	2.00	0	1,400,833	0	1,400,833	2.00	0	1,401,336	0	1,401,336
DP 721 - Public Safety Communications Program - GF										
07	2.00	300,000	0	(208,672)	91,328	2.00	300,000	0	(208,242)	91,758
DP 722 - Emergency Telecommunications Infrastructure - OTO										
07	0.00	4,100,000	0	0	4,100,000	0.00	0	0	0	0
Total	4.00	\$4,400,000	\$1,400,833	\$498,328	\$6,299,161 *	4.00	\$300,000	\$1,401,336	\$498,758	\$2,200,094

DP 718 - MSDI Federal Request - An increase of just over \$1.4 million federal special revenue for the biennium is requested to fund continuing development of the Montana Spatial Data Infrastructure (MSDI).

LFD COMMENT

Montana Spatial Data Infrastructure

The Montana Spatial Data Infrastructure (MSDI) is a geographic information system (GIS) database containing 12 data layers: 1) land ownership; 2) transportation; 3) surface waters; 4) hydrologic units; 5) jurisdictional boundaries; 6) geodetic control; 7) elevation; 8) aerial imagery; 9) geology; 10) critical infrastructures; 11) land cover; and 12) soils. The request includes funding to complete and implement layers for transportation, critical infrastructure, geodetic control, and jurisdictional boundaries. According to the executive, these four layers would support the following programs:

- E-911
- Homeland security preparedness and response
- Disaster and emergency services
- Land
- Land parcel accuracy
- Jurisdictional boundary measurement

**LFD
COMMENT
Continued**

- Rural and urban government services
- Economic development and opportunity
- Agricultural productivity
- Wildland fire mitigation
- Natural resource management

**LFD
ISSUE***One Time Funding*

The funding for the MDSI would come from a requested, but yet to be received, federal grant from the Federal Geographic Data Committee. The federal funding would be used to develop or update existing data layers as prioritized by the Montana Geographic Information Council. Development of the MDSI would be an on-going effort using whatever funding is available. This request is for a portion of funding for the data infrastructure. If the entire data infrastructure of all 12 layers were developed today, it would cost an estimated nearly \$30 million. Future funding would be used to develop additional portions of the data infrastructure. This request is not expected to obligate the state to future state funding. However, once a data layer is developed, its value will decrease over time unless the data is maintained current with ongoing changes. The Montana Land Information Act proposed to the 2005 Legislature in LC 79 and used to fund the request of DP 719 would provide a stable source of funding to coordinate and maintain the data of the MDSI.

Because continuation of the federal funding is uncertain, the legislature may want to designate the funding for MDSI as one-time-only so it could review future requests for funding.

DP 719 - Montana Land Information Act (Requires Legislation) - An increase of \$2.8 million state special revenue for the biennium is requested to fund personal services, operating costs, and grants associated with the Montana Land Information Act. The executive recommends that the legislature approve funding for this adjustment contingent upon passage and approval of the Montana Land Information Act. The adjustment switches personal services funding for existing 2.00 FTE currently funded in the proprietary portion of the program to funding in HB 2 with state special revenue.

**LFD
COMMENT***Montana Land Information Act*

The Montana Land Information Act (MLIA) is proposed legislation (LC 79) to develop a standardized, sustainable method to collect, maintain, and distribute information in digital formats about the natural and man-made land characteristics of Montana. The act is intended to ensure that land information in digital formats is collected consistently, maintained accurately and with standards, and made available in common ways for all potential uses, both private and public. In the introduced form, the act authorizes the creation of a special earmarked revenue account to fund grants to state, local, and tribal entities, match federal funds, and fund the department GIS coordination responsibilities. Funding for the state special revenue of MLIA would come from a \$1 increase in the current \$6 per page fee paid to county clerks and recorders for recording land transactions.

DP 721 - Public Safety Communications Program - GF - An increase of \$600,000 general fund and a reduction of \$416,914 federal special revenue for the biennium are requested to shift funding for the public safety communications program. The request results in a net increase of \$183,086 to add 2.00 FTE computer systems analysts.

**LFD
COMMENT***Funding From the 2003 Legislature*

The 2003 Legislature approved an increase of \$2.25 million federal special revenue for the 2005 biennium to add 3.00 FTE and to develop standards to implement interoperable public safety communications systems used by state, local, and federal entities in Montana. Of the funding for the 2005 biennium, \$922,000 was expended in FY 2004. This adjustment would move the public safety communications function from being 100 percent federally funded to being funded 70 percent from federal funds and 30 percent from the general fund. With the addition of the 2.00 FTE of this request, the program would support 5.00 FTE. The additional 2.00 FTE would address the additional workload the agency is experiencing as an ever growing number of federal, state, and local governments, communities, and private entities collaborate on concept demonstration projects (CDP) like the Northern Tier Interoperability Project described in DP 722.

The intended outcome of these efforts at the state level to coordinate all efforts in the state associated with public safety communication systems is to improve the efficiency of the statewide effort so all parties develop systems that will communicate seamlessly between public safety and other interacting entities.

- Prior to FY 2004 no funds were appropriated by the legislature for this purpose except for the following funding actions:
- The 1995 Legislature appropriated \$200,000 federal special revenue for FY 1996 to fund a consultant to study existing state and local public safety radio systems and provide a technical design for a shared radio network, but no expenditures were made with the FY 1996 funding
- The 1997 Legislature appropriated \$40,000 general fund for FY 1998 to hire a consultant to develop a physical design and for the implementation of the first phase of a statewide public safety radio infrastructure
- The 1999 Legislature removed all funding for the statewide public safety radio infrastructure

**LFD
COMMENT***Show of State Support*

The funding switch for the public safety communications function is proposed to express state commitment for efforts to provide coordinated improvements to public safety communications in the state. The costs that were previously funded with federal funds and proposed to be funded with general fund are the personal services costs of 3.00 FTE. Funding for 2.00 FTE additional staff would address additional workload for state coordination of all efforts in the state being made by federal, state, and local government and private entities would be funded with general fund if the legislature approves the request.

DP 722 - Emergency Telecommunications Infrastructure - OTO - An increase of \$4.1 million general fund for the biennium is requested to fund the Northern Tier Interoperability Project (NTIP). The executive requests that the legislature designate an appropriation for NTIP as biennial and restricted only for the NTIP.

**LFD
COMMENT***Northern Tier Interoperability Project*

According to publications for the Statewide Interoperability Executive Council, established by an executive order of the Governor, the basic purpose of the Northern Tier Interoperability Project (NTIP) is to improve communications between local law enforcement, state and federal governments, and tribal authorities by providing digital voice and data radio capabilities along the Montana/Canada border. The basic capabilities provided by the NTIP include:

- Secure digital communications using conventional voice systems
- Standardized mobile data access to local, state, and federal databases of law enforcement information
- Wireless interconnection of Montana National Guard Armory facilities
- Wireless microwave backbone for interconnecting dispatch centers, emergency operations centers, and other public safety facilities

**LFD
COMMENT
Continued**

The anticipated cost for the entire project is \$13.4 million. Of this total cost anticipated to complete the project:

- \$5.7 million would be funded through the Office for Domestic Preparedness (ODP) federal grant
- \$1.4 million would come from the Montana Board of Crime Control through Law Enforcement Terrorism Prevention funding
- \$2.2 million would be funded through a collaboration with the Montana National Guard
- \$4.1 million would be funded by these adjustment

**LFD
ISSUE***Long-term Plans*

It has been estimated that \$150 million would be needed if all responders in the state were to become connected in one interoperability project. Data is not available, due in most part to the lack of operating experience, to determine the annual maintenance costs for this or other interoperability projects.

The legislature may wish to discuss long-term plans and funding options with the department, as well as future commitments of funds to maintain operability of this part of the project.

Language

The executive recommends the following language to be included in HB 2 for the program:

“Any funds remaining from the appropriation authorized in section 11, Chapter 597, Laws of 2003 are reappropriated to the department of administration for the 2007 biennium for the stated purpose.”

**LFD
ISSUE***Conflict With Language for the Department of Revenue*

Section 11, Chapter 597, Laws of 2003, (SB 271) directed that proceeds of a loan from the Board of Investments to fund the replacement of POINTS be deposited in the capital projects fund. SB 271 appropriated up to \$17 million of the capital projects fund to the Department of Administration (DOA) for replacing POINTS. The executive request for the Department of Revenue (DOR) contains the same language request as above, but would reappropriate the remaining funds to DOR.

To prevent duplication and confusion, the legislature may want to determine which agency is most appropriate for receiving the appropriation. Under the intent of SB 271, the appropriation was made to DOA to provide funding control over the POINTS replacement project through the office of the chief information officer. As implemented during the 2005 biennium, the appropriation was transferred to DOR for expenditures on the project and not expended by DOA.

**LFD
ISSUE***More Appropriate Language – Capital Projects Fund*

As stated, the language to reappropriate funds from section 11 of SB 271 is redundant to language for the Department of Revenue (DOR). If the legislature decides to reappropriate the funds to the Department of Administration instead of DOR, the legislature may want to modify the language to make it more consistent with legislative policies for drafting HB 2 language. Recommended modifications include a few style changes and inclusion of a limit for the appropriation. The following replacement language is recommended:

“Any funds remaining, up to \$6,100,000, from the appropriation authorized in section 11(2), Chapter 597, Laws of 2003, are reappropriated to the department for the 2007 biennium for the stated purpose.”

Proprietary Rates**Proprietary Program Description**

The Information Technology Services Division (ITSD) manages the following information technology (IT) services for state government:

- Shared statewide desktop and data network services
- Central mainframe computer processing
- Mid-tier access and production services
- Local and long-distance telephone networking
- IT planning, research, and coordination
- Design, development, and maintenance support of IT applications
- Personal computer (PC) and office automation support and consultation
- Design and development of telephone equipment, networking applications, and other telecommunication needs
- Internet and intranet services
- Electronic government planning and coordination
- Central imaging
- Geographic information systems (GIS) coordination
- Disaster recovery facilities for critical data processing applications
- IT training

ITSD also manages the State Accounting, Budgeting and Human Resource System (SABHRS) operational support unit, which is responsible for the operation and maintenance of the state budget development system (MBARS), and the PeopleSoft human resource, financial, and asset management systems.

ITSD services are enterprise and statewide in nature, and therefore agencies are required by state law to use these services. If exceptional conditions exist, agencies may be granted exceptions to meet specific agency needs. All services are offered and provided to all state and local agencies.

Funding for the ITSD is primarily from charges to state agencies for mainframe and mid-tier computer processing, desktop services, and state telephone support services as well as direct charges to state agencies and other entities. In order to coordinate state communication function, the division also receives a significant amount of "pass-through" funds paid on behalf of state agencies to communications vendors.

Proprietary Revenues and Expenses

In FY 2004, ITSD had revenues of about \$32.4 million from fees paid by agencies statewide. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (34.9 percent), \$11.3 million
- State special revenue (26.6 percent), \$8.6 million
- Federal special revenue (26.3 percent), \$8.5 million
- All other funds (12.1 percent), \$4.0 million

In FY 2004, revenues funded personal services for 178.5 FTE and operating costs. Personal services of \$9.3 million were 31 percent of expenses, with operating costs making up an additional \$20.6 million or 69 percent of expenses. As such, personal services are a fixed cost driver for the division operations. Other major service areas of the division have additional cost components that have large impacts on their operating costs. These significant cost drivers are listed below for the major service areas of ITSD:

- Desktop services rate - communications and software costs
- SABHRS administration - contracted services and software expenses
- Mainframe processing - software, supplies, depreciation, and debt service interest
- Telephone equipment and long-distance - communication and maintenance

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Fund	Fund Name	Agency #	Agency Name	Program Name
6522	ISD Proprietary	6101	Department of Administration	Information Technology Services Division

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:						
Fee revenue						
Desktop Services	9,399,924	9,995,209	10,412,759	10,356,786	11,433,793	11,433,793
SABHRS Services	4,168,582	4,235,143	4,651,176	4,794,639	6,335,169	6,335,169
Long Distance	2,751,562	3,467,327	2,973,515	2,900,000	3,105,000	3,105,000
Telephone Equipment	1,767,325	1,636,379	2,421,120	1,780,000	1,953,000	1,953,000
Computer Processing	7,980,921	7,388,745	8,617,436	9,261,194	9,169,483	8,806,031
Other Charges For Services	3,769,209	2,893,373	3,308,234	2,901,204	2,366,953	2,752,145
Net Fee Revenue	29,837,523	29,616,176	32,384,240	31,993,823	34,363,398	34,385,138
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	14,792	10,538	103,946	-	-	-
Total Operating Revenue	29,852,315	29,626,714	32,488,186	31,993,823	34,363,398	34,385,138
Operating Expenses:						
Personal Services	9,438,781	10,413,700	9,289,923	10,433,060	10,454,291	10,457,430
Other Operating Expenses	20,221,521	17,359,055	20,615,353	20,497,045	25,107,441	24,931,085
Total Operating Expenses	29,660,302	27,772,755	29,905,276	30,930,105	35,561,732	35,388,515
Operating Income (Loss)	192,013	1,853,959	2,582,910	1,063,718	(1,198,334)	(1,003,377)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	(8,438)	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	(8,438)	-	-	-
Income (Loss) Before Operating Transfers	192,013	1,853,959	2,574,472	1,063,718	(1,198,334)	(1,003,377)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	67,812	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	192,013	1,853,959	2,642,284	1,063,718	(1,198,334)	(1,003,377)
Total Net Assets- July 1 - As Restated	367,728	2,143,812	4,111,620	7,176,209	8,239,927	7,041,593
Prior Period Adjustments	(8,424)	113,849	422,305	-	-	-
Cumulative effect of account change	1,592,495	-	-	-	-	-
Total Net Assets - July 1 - As Restated	1,951,799	2,257,661	4,533,925	7,176,209	8,239,927	7,041,593
Net Assets- June 30	2,143,812	4,111,620	7,176,209	8,239,927	7,041,593	6,038,216
60 days of expenses (Total Operating Expenses divided by 6)	4,943,384	4,628,793	4,984,213	5,155,018	5,926,955	5,898,086
45 days of expenses (Total Operating Expenses divided by 8)	3,707,538	3,471,594	3,738,160	3,866,263	4,445,217	4,423,564

The figure for fund 06522 shows the financial information for the fund from FY 2002 through FY 2007. Division management recommends a 45-day working capital balance to accommodate division billing and payment cycles. At the end of FY 2004, equipment and intangible assets accounted for roughly 60 percent of total assets of the fund and working capital of about \$760,000 provided for less than 10 days of operating expenses.

Desktop services utilization includes data connections to the state network. The division is projecting an approximate 12 percent average increase over the 2007 biennium. Responses from a data connection survey requested from each agency are used to determine the utilization rate used in the rate development. When these projections are not met by the agency, ITSD under-recovers its costs and would either recover more from other service categories or reduce expenditures by reducing services provided for all.

SABHRS utilization is currently not tracked and is based on projected expenses.

Telephone equipment utilization is projected from base year volume. Long-distance utilization is anticipated to decrease by approximately 2.5 percent from projected FY 2005 levels, due primarily to university system students, who no longer participate in this long-distance program and increasingly use cell phones and phone cards.

Variations in expense patterns result from software purchase expenses and equipment depreciation expenses. Software purchase expenses are high in the initial purchase year and then only include fixed maintenance costs for subsequent years. Equipment depreciation expenses vary when decreases of depreciation costs for existing equipment with expiring depreciation cycles differ from depreciation costs on new equipment.

Proprietary Rate Explanation

The executive is requesting the legislature approve rates for ITSD for the 2007 biennium based on the following statement:

Information Technology Services seeks the ability to continue to charge various rates in order to maintain a 45-day working capital, except that the desktop services rate may not exceed \$72.60 per connection per month or the amount that was budgeted in an agency budget, whichever is more.

Figure 7A shows the rates charged in FY 2004 and those anticipated to be charged under the above proposed rate.

LFD COMMENT

Growth of SABHRS Costs

The rates anticipated to be charged to users would remain the same or decrease from those charged in FY 2004 for all rates except the SABHRS rate. The SABHRS rate would increase by 36 percent over the amount allocated to agencies in FY 2004. The increase is due to including SABHRS, for the first time, in the midtier cost allocation model. The midtier is a computer network that is between a mainframe computer and a personal computer in operating characteristics. Most state systems that operate using Oracle database applications operate in the midtier environment. Prior to the 2007 biennium, the allocation of midtier costs for SABHRS were under a fixed cost agreement of \$750,000 in FY 2004. All other agency applications were allocated midtier costs based on an allocation model that used the amount of midtier storage space to allocate the costs remaining after fixed agreement allocations were deducted.

For the 2007 biennium, the executive recommends including SABHRS storage needs in the midtier cost allocation model. Since SABHRS uses 2000 gigabytes of midtier storage compared to 1,108 gigabytes for all other midtier applications combined, the inclusion of SABHRS in the cost allocation model significantly impacts the allocation of midtier costs to application and improves the equity of the midtier cost allocation. It is because SABHRS storage is included in the midtier allocation model that SABHRS costs would increase in the 2007 biennium from FY 2004.

Prior to including SABHRS in the midtier cost allocation model, all other midtier application users subsidized the cost for SABHRS users. With SABHRS in the allocation model, a more true cost is allocated to all SABHRS users and the other midtier application users benefit from experiencing midtier rate increases for the 2007 biennium to fund increased costs of the midtier.

**LFD
ISSUE***SABHRS Allocation*

Agencies are budgeted for fixed costs associated with certain programs that serve other agencies on a statewide basis. Within agency budget requests is a component for fixed costs to fund payments for SABHRS. Statewide, agency budget requests include funding for SABHRS of \$6,335,169 in FY 2006 and \$6,335,169 in FY 2007. The legislature may want to approve a fixed allocation for SABHRS costs that is linked with agency funding to pay for SABHRS. Approval of a fixed allocation for SABHRS would fund SABHRS operations as a stand-alone operation as it is operated and costs were determined.

- The legislature could approve rates for ITSD:
- As requested
- As requested except limit SABHRS from collecting more than \$6,335,169 in FY 2006 and \$6,335,169 in FY 2007
- As requested except limit SABHRS from collecting more than some other level as determined by the legislature

Figure 7A
Information Technology Services Division
2007 biennium
Anticipated Rates and Growth Factors

Service Center	Service Name	Anticipated Rates and Growth Factors				
		FY 2004	FY 2006		FY 2007	
			Change from FY 2004	Rate	Change from FY 2004	Rate
Mainframe	Batch CPU	\$2.11	-10%	\$1.90	-10%	\$1.90
	CICS CPU	0.6155	-10%	0.554	-10%	0.554
	IDMS CPU	1.9447	-10%	1.7502	-10%	1.7502
	IDMS/CICS	0.6492	-10%	0.5843	-10%	0.5843
	IDMS/ADS	1.2026	-10%	1.0823	-10%	1.0823
	TSO CPU	2.5772	-10%	2.3195	-10%	2.3195
	Disk storage	0.0127	-10%	0.0114	-10%	0.0114
	SYSIN read/write	0.1168	0%	0.1168	0%	0.1168
	Disk read/write	0.1168	0%	0.1168	0%	0.1168
	Tape read/write	0.4406	0%	0.4406	0%	0.4406
Midtier *	Midtier (Including Central Imaging)	2,946,098	N/A	4,341,694	N/A	3,974,642
Print	Laser	0.0339	0%	0.0339	0%	0.0339
LAN Administration	LAN administration	60	0%	60	0%	60
Desktop	Desktop service	72.6	0%	72.6	0%	72.6
VPN	ISP/VPN	25	0%	25	0%	25
	VPN	10	0%	10	0%	10
Video	Video conference/subscriptions	35	0%	35	0%	35
Voice	Equipment	20	0%	20	0%	20
	Long distance	0.105	0%	0.105	0%	0.105
	IVR	175	0%	175	0%	175
	Voice mail	5	0%	5	0%	5
	Megacom	0.1	0%	0.1	0%	0.1
SABHRS	SABHRS	4,651,404	36%	6,335,169	36%	6,335,169

* Midtier and Central Imaging are recovered thru Service Level Agreements (SLA's) with agencies and will be included in their individual budgets.

Significant Adjustments for the 2007 Biennium

The executive included present law adjustments and new proposals for ITSD totaling about \$3.7 million for the 2007 biennium.

Adjustments included in the rate request are:

- An increase of \$1.2 million for the biennium to fund statewide adjustments impacting the proprietary funded portion of the program. The adjustment would impact all areas of the program and be a factor in all rate changes due primarily to increases for:
 - Personal service adjustment of about \$723,000
 - Statewide indirect costs of \$519,000
 - Rent increases of \$105,000
- An increase of \$82,353 for the biennium to fund increases for indirect cost payments for services received from other proprietary funded centralized service functions of the agency. The adjustment would impact all areas of the program and be a factor in all rate changes
- An increase of \$162,000 for the biennium to fund an upgrade to the state compressed video network, METNET. The upgrade would support security requirements for using Internet infrastructure to transmit video on the network by systems both inside and outside the state firewall for improved video conferencing that would also allow audio conferences to connect with video conferences. Funding would allow the replacement of obsolete communication equipment no longer supported by the manufacturer. This adjustment would impact the video services rate
- An increase of about \$2.4 million for the biennium to fund payments associated with SABHRS data storage costs on the state computer network. This adjustment accounts for 71 percent of the growth of revenues for SABHRS services that are shown of the figure for fund 06522. SABHRS was included in the midtier cost allocation for the first time. Since SABHRS occupies nearly 67 percent of the storage of the midtier computer system, inclusion of SABHRS in the cost allocation model shifted midtier costs from other system applications to SABHRS. It is this methodology change that causes the SABHRS costs to increase
- An increase of \$100,000 for the biennium to add funding for 2.00 FTE training staff to provide SABHRS training to agency users. This adjustment accounts for 3 percent of the growth of revenues for SABHRS services that are shown of the figure for fund 06522
- A reduction of \$258,169 for the biennium to move funding for 2.00 FTE from proprietary funding to state special revenue funding in HB 2 to support the Montana Land Information Act

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	31.75	3.25	0.00	35.00	3.25	0.00	35.00	35.00
Personal Services	1,558,544	329,420	0	1,887,964	328,360	0	1,886,904	3,774,868
Operating Expenses	570,483	70,174	0	640,657	51,433	0	621,916	1,262,573
Total Costs	\$2,129,027	\$399,594	\$0	\$2,528,621	\$379,793	\$0	\$2,508,820	\$5,037,441
State/Other Special	2,129,027	399,594	0	2,528,621	379,793	0	2,508,820	5,037,441
Total Funds	\$2,129,027	\$399,594	\$0	\$2,528,621	\$379,793	\$0	\$2,508,820	\$5,037,441

Program Description

The Banking and Financial Institutions Division licenses, supervises, regulates, and examines a variety of financial institutions operating in and outside Montana such as:

- State-chartered banks, trust companies, savings and loans, and credit unions
- Consumer loan and sales finance companies
- Title loan companies
- Escrow companies
- Foreign capital depositories in accordance with Title 32, MCA
- Deferred deposit loan companies
- Mortgage brokers and loan originators

The purpose of the supervisory function is to investigate the methods of operation in order to determine whether these institutions are operating in a safe and sound fiscal manner. Supervision of regulated financial business is accomplished through on-site safety and soundness examinations conducted by division examiners. The division also provides a consumer complaint process to resolve matters with the regulated financial institutions.

The State Banking Board is administratively attached to the division. The board is responsible for making final determinations of applications for new bank charters and foreign capital depository charters; hearing appeals of division decisions on branch bank, merger, or relocation applications; and acting in an advisory capacity with respect to the duties and powers given by statute or otherwise to the department as the duties and powers relate to banking and to the regulation of foreign capital depositories.

Program Highlights

Department of Administration Banking and Financial Division Major Budget Highlights	
<ul style="list-style-type: none"> • The state special revenue budget would increase through adjustments totaling about \$779,000 for the biennium over the base (an average annual increase of 18 percent) due primarily to: <ul style="list-style-type: none"> • Statewide present law adjustments • Funding to add 3.25 FTE bank examiners and administrative support • Personal computer replacements • Maintenance of accreditation through the Conference of State Bank Supervisors 	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Banking And Financial Division						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
02077 Financial Institutions Div	<u>\$ 2,129,027</u>	<u>100.0%</u>	<u>\$ 2,528,621</u>	<u>100.0%</u>	<u>\$ 2,508,820</u>	<u>100.0%</u>
Grand Total	<u>\$ 2,129,027</u>	<u>100.0%</u>	<u>\$ 2,528,621</u>	<u>100.0%</u>	<u>\$ 2,508,820</u>	<u>100.0%</u>

The division is funded solely by state special revenue through assessments, application fees, and examination fees paid by the regulated financial institutions.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2006-----					-----Fiscal 2007-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				228,582					228,002
Vacancy Savings				(71,483)					(71,458)
Inflation/Deflation				(5,987)					(5,862)
Fixed Costs				9,651					7,728
Total Statewide Present Law Adjustments				\$160,763					\$158,410
DP 301 - Indirect Administrative Costs									
0.00	0	(4,882)	0	(4,882)	0.00	0	(4,915)	0	(4,915)
DP 1401 - Request 3.25 FTE Bank Examiners									
3.25	0	227,563	0	227,563	3.25	0	221,298	0	221,298
DP 1402 - Replace desktop computers and network printer.									
0.00	0	11,150	0	11,150	0.00	0	0	0	0
DP 1403 - Fund ongoing CSBS accreditation program									
0.00	0	5,000	0	5,000	0.00	0	5,000	0	5,000
Total Other Present Law Adjustments									
3.25	\$0	\$238,831	\$0	\$238,831	3.25	\$0	\$221,383	\$0	\$221,383
Grand Total All Present Law Adjustments				\$399,594					\$379,793

DP 301 - Indirect Administrative Costs - A reduction of \$9,797 state special revenue for the biennium is requested to fund increases and allocation changes in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT

Indirect Administrative Cost Reduction

The allocation of indirect administrative costs to the Banking and Financial Institutions Division would be reduced while the costs of the programs funded with the indirect administrative cost assessments would increase. The reduction for the division is due primarily to the lower historical and anticipated usage of the Legal Services Unit in the Administrative Financial Services Division. Because of the lower usage of legal services, the division has been allocated nearly \$15,500 less of the Legal Services Unit costs for the biennium.

DP 1401 - Request 3.25 FTE Bank Examiners - An increase of \$448,861 state special revenue for the biennium is requested to fund an additional 3.25 FTE and costs for associated office equipment and travel expenditures.

LFD ISSUE

Additional FTE

Of the 3.25 FTE the executive recommends adding, 3.00 FTE would be for bank examiners and 0.25 FTE would be used to expand existing administrative support positions. The increased administrative support FTE would address increased workload for licensing and monitoring duties in the mortgage broker and loan originator program.

Funding for the additional bank examiners is higher than entry level to fund experienced examiners at salaries competitive with those offered in similar programs. The division funds bank examiners under the broadband pay plan alternative classification system. Figure 14A illustrates the salary distribution for bank examiners in the division. Except for two positions that are in band 7, existing bank examiners are classified in pay bands 5 and 6. This adjustment would fund the additional 3.00 FTE bank examiners at salary levels \$2,400 higher than the average for existing positions in band 6.

Figure 14A Bank Examiner Salary Distribution			
Postion Status	Pay Band	FTE in Band	Average Salary
Existing	5	9.00	\$33,448
Existing	6	11.00	42,376
Existing	7	2.00	58,497
DP 1401	6	3.00	44,772

The executive has stated that additional bank examiners are needed to address the increased workload that has resulted

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ISSUE
Cont.**

from an increased number and size of financial businesses regulated by the division, and because of the Montana Mortgage Broker and Loan Originator Licensing Act passed by the 2003 Legislature. Because of the act, the division began licensing mortgage brokers and loan originators on July 1, 2004. The division expects to issue between 1,000 and 1,500 mortgage broker and loan originator licenses by the end of calendar year 2004. The division will now need to examine the mortgage brokers and loan originators, which would add an estimated 1,100 to 1,300 examination and investigation hours each year.

The 2003 Legislature approved funding to add 4.00 FTE bank examiners and to provide broadband pay plan salary increases in both FY 2004 and FY 2005 to move bank examiners to a professional financial institution examiner career ladder plan. The salaries for the existing examiners in Figure 14A include pay raises given in FY 2004 with the funding from the 2003 Legislature. As such, the salaries proposed in this adjustment may lead to a skewing of salaries in the division and may drive future increases to maintain salary equity.

Prior to approving this adjustment, the legislature may wish to have the executive justify how the salaries proposed in this adjustment affect the long-range salary plan of the professional financial institution examiner career ladder.

DP 1402 - Replace desktop computers and network printer. - An increase of \$11,150 state special revenue for FY 2006 is requested to replace five personal computers in accordance with the four-year state standard computer replacement cycle and one network printer.

**LFD
ISSUE***Base Funding Exists*

The base includes \$11,737 to purchase computer hardware. As such, \$23,474 state special revenue would be available to fund computer replacements in the 2007 biennium without this adjustment. With a headcount of 33 people in the division and the current standard cost of about \$1,300 for a replacement computer, the division would only need about \$21,000 each biennium to replace one computer per staff on a four-year replacement cycle. It would appear that base funding is adequate to fund both the replacement computers and a replacement network printer at the \$3,650 estimated cost of the division without this adjustment.

DP 1403 - Fund ongoing CSBS accreditation program - An increase of \$10,000 state special revenue for the biennium is requested to maintain division accreditation through the Conference of State Bank Supervisors (CSBS). The adjustment includes funding to pay a \$5,000 annual dues assessment comprised of a \$3,000 annual fee to maintain accreditation plus 20 percent of the estimated cost of \$10,000 to fund a re-accreditation assessment in FY 2010.

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COMMENT***Notification of Accreditation*

In November 2004, the state received notification from the Conference of State Bank Supervisors (CSBS) that the Montana Division of Banking and Financial Institutions has met all the requirements for professional accreditation. CSBS is the national association of state officials responsible for chartering, supervising, and regulating the nation's 6,300-plus state-chartered banks. CSBS accreditation verifies that a state banking department can effectively fulfill its responsibility of chartering, regulating, and supervising the state's banks and bank holding companies. The accreditation is valid for five years.

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	31.50	0.00	0.00	31.50	0.00	0.00	31.50	31.50
Personal Services	1,395,508	17,046	0	1,412,554	17,292	0	1,412,800	2,825,354
Operating Expenses	5,791,085	806,979	120,000	6,718,064	208,598	0	5,999,683	12,717,747
Equipment	38,839	7,000	0	45,839	0	0	38,839	84,678
Debt Service	1,135,317	(1,135,317)	0	0	(1,135,317)	0	0	0
Total Costs	\$8,360,749	(\$304,292)	\$120,000	\$8,176,457	(\$909,427)	\$0	\$7,451,322	\$15,627,779
Proprietary	8,360,749	(304,292)	120,000	8,176,457	(909,427)	0	7,451,322	15,627,779
Total Funds	\$8,360,749	(\$304,292)	\$120,000	\$8,176,457	(\$909,427)	\$0	\$7,451,322	\$15,627,779

Program Description

The Montana State Lottery designs and markets lottery games that allow players to purchase chances to win prizes. The lottery presently offers a variety of instant/scratch and lotto-style games, some in cooperation with other lotteries through the Multi-State Lottery Association. A five-member lottery commission, appointed by the Governor, sets policy and oversees program activities and procedures. The net revenue, after prizes, sales commissions and operating expenses, is deposited in the state general fund on a quarterly basis.

Program Highlights

Department of Administration Montana State Lottery Major Budget Highlights	
<ul style="list-style-type: none"> Total fund budget would decrease through adjustments totaling \$1.1 million for the biennium below the base (an average annual reduction of 6.5 percent) through offsetting increase and reduction adjustments Adjustments that reduce funding are due primarily to: <ul style="list-style-type: none"> Retirement of debt services for the installment purchase of the on-line gaming system A reduction in the allocation for indirect costs paid to centralized service programs of the agency that are funded through proprietary funds derived from charging fees to programs served Adjustments that increase funding are due primarily to: <ul style="list-style-type: none"> Replacement of computer equipment for the on-line gaming system and the computer network for the system Rent increase for lottery offices and warehouse space Vendor payments to the operator of the on-line gaming system Signs for lottery retail locations 	

Program Discussion*Return on Investment Report*Language Directing the Report

The 2003 Legislature included the following language in HB 2 for the 2005 biennium that directed the Montana State Lottery to provide reports for the 2005 Legislature to consider when appropriating funds for the lottery.

The Montana State Lottery shall present a report to the Joint Appropriations Subcommittee on General Government and Transportation of the 59th Legislature that documents the return on investment of each lottery game offered during the 2005 biennium and the anticipated return on investment for each lottery game planned for the 2007 biennium. For each lottery game, the report must itemize direct and indirect costs and revenue.

The legislature requested the information on costs and return on investment to better enable the appropriations subcommittee to evaluate budget requests as to the potential impacts on the transfer of lottery funds to the general fund from budget requests. The information provided for completed fiscal years provides an indication of actual return on investment experience, but since FY 2004 was the first year the legislature required the information, it doesn't provide a comparison between what was investment returns were anticipated when appropriating lottery funds and the result from the appropriations.

Information Provided by the Montana State Lottery

The lottery has provided these reports as directed. The reports are shown in Figures 15A, 15B, and 15C. The report for FY 2004 shows that the Qwik Tix game was not a profitable product of the lottery and had a negative impact on the transfer of lottery funds to the general fund. Sales of the Qwik Tix game are continuing in FY 2005, but without promotional or other expenditures above statutory direct cost for payouts and commissions and an allocation of indirect costs of the lottery. In FY 2005 with reduced costs, Qwik Tix has a positive impact on the general fund transfer, but well below expectations. The lottery has made no long-term commitments for continuing Qwik Tix into the 2007 biennium, so it doesn't appear on Figures 15B and 15C.

Figure 15A
Montana Lottery
Report on Fiscal Year 2004 Financial Activity by Product

	Scratch Tickets	Powerball	Montana Cash	Wild Card	Hot Lotto	Qwik Tix	Admin (MEMO Only)	TOTALS
Revenue:								
Product Sales	\$ 10,378,001	\$ 16,972,086	\$ 4,186,863	\$ 2,329,385	\$ 2,435,021	436,301		\$ 36,737,657
Other (Licensing, Interest)	13,144	21,495	5,303	2,950	3,084	552	46,528	46,528
Total Revenue	\$ 10,391,145	\$ 16,993,581	\$ 4,192,166	\$ 2,332,335	\$ 2,438,105	436,853	46,528	\$ 36,784,185
Direct Costs:								
Statutory (Prizes & Commissions)	(6,969,000)	(8,885,085)	(2,418,486)	(1,347,410)	(1,295,805)	(297,155)		(21,212,941)
Add One-Time Reserve Refund		442,068						442,068
Net Statutory Dir	\$ (6,969,000)	\$ (8,443,017)	\$ (2,418,486)	\$ (1,347,410)	\$ (1,295,805)	(297,155)	0	\$ (20,770,873)
HB 2 (Vendor Fee, Scratch Tickets, Dues, Interest)	(1,561,489)	(1,495,407)	(352,517)	(221,722)	(220,308)	(36,735)	46,845	(3,888,178)
Non-Budgeted (System Depreciation & Amortization)	(292,479)	(484,247)	(119,459)	(66,462)	(69,476)	(12,448)		(1,044,571)
Total Direct Costs	\$ (8,822,968)	\$ (10,422,671)	\$ (2,890,462)	\$ (1,635,594)	\$ (1,585,589)	(346,338)	46,845	\$ (25,703,622)
Indirect Costs:								
HB 2 Operating Expenses (Personnel, Advertising, Rent, Supplies, etc.)	(901,275)	(851,754)	(267,458)	(180,059)	(210,455)	(534,100)	1,011,167	(2,945,101)
Non-Budgeted (Other Depreciation, Loss on Sale of Asset, etc.)	(9,887)	(5,005)	(1,891)	(1,147)	(1,160)	(770)	4,489	(19,860)
Ratio Transfer to Revenue	6.33%	33.67%	24.66%	22.13%	26.32%	-101.85%		22.09%

Montana Lottery Anticipated FY2006 Financial Activity by Product								
BASE BUDGET								
	Scratch Tickets	Powerball	Montana Cash	Wild Card	Hot Lotto	TOTALS	ADDITIONAL INFORMATION	
Revenue:								
Product Sales	\$ 10,300,000	\$ 16,900,000	\$ 4,150,000	\$ 2,300,000	\$ 2,350,000	\$ 36,000,000		
Other (Licensing, Interest)	14,878	24,411	5,995	3,322	3,394	52,000		
Total Revenue	\$ 10,314,878	\$ 16,924,411	\$ 4,155,995	\$ 2,303,322	\$ 2,353,394	\$ 36,052,000		
Direct Costs:								
Statutory	(6,901,000)	(8,957,000)	(2,365,500)	(1,334,000)	(1,292,500)	(20,850,000)		
(Prizes & Commissions)								
HB2	(1,581,050)	(1,411,150)	(346,525)	(192,050)	(196,225)	(3,727,000)		
* (Vendor Fee, Scratch Tickets, Dues)								
Non-Budgeted	(213,774)	(361,479)	(88,765)	(49,195)	(50,265)	(763,478)	\$ 281,093	Reduction from FY2004 See Note A on page 2
(System Depreciation & Amortization)								
Total Direct Costs	\$ (8,695,824)	\$ (10,729,629)	\$ (2,800,790)	\$ (1,575,245)	\$ (1,538,990)	\$ (25,340,478)		
Indirect Costs:								
HB2 Operating Expenses	(870,937)	(1,429,012)	(350,911)	(194,481)	(198,709)	(3,044,050)		
(Personnel, Advertising, Rent, Supplies, etc.)								
Non-Budgeted	(9,920)	(16,277)	(3,997)	(2,215)	(2,264)	(34,673)		
(Other Depreciation, Loss on Sale of Asset, etc.)								
Total Indirect Costs	\$ (880,857)	\$ (1,445,289)	\$ (354,908)	\$ (196,696)	\$ (200,973)	\$ (3,078,723)		
* Assumes no change in Vendor fee % with new contract								
EPP #1501 - Administrative Server								
Indirect Cost								
Non-Budgeted Depreciation	\$ (381)	\$ (624)	\$ (153)	\$ (85)	\$ (87)	\$ (1,330)	\$ 7,000	Total cost of Server to be depreciated over 5 years.
EPP #1502 - Commission Per Diem								
Indirect Cost	\$ (358)	\$ (587)	\$ (144)	\$ (80)	\$ (81)	\$ (1,250)		
EPP #1503 - Operating System (see Note A)								
Depreciation/Amortization Reduction (memo only)							\$ 281,093	Note A: In 1999, the Lottery purchased its gaming system which will be completely depreciated as of 3/2006. We believe the system does not need to be replaced but only refurbished. \$281,093 represents a reduction in depreciation and amortization if the system does not need to be replaced. \$93,593 represents the possible decrease in associated expenses. Total budget request is for a \$600,000 biennium appropriation.
Direct Cost								
Non-Budgeted Depreciation	(10,500)	(17,755)	(4,360)	(2,416)	(2,469)	(37,500)	(37,500)	
Indirect Cost								
HB2 - Other Svcs/Supplies/Repairs	(42,917)	(70,416)	(17,292)	(9,583)	(9,792)	(150,000)	(150,000)	
Net Effect on Transfer	\$ (53,417)	\$ (88,171)	\$ (21,652)	\$ (11,999)	\$ (12,261)	\$ (187,500)	\$ 93,593	
EPP #1504 - Permanent Lighted Signage								
Revenue (1.028% sales increase)	106,686	174,472	43,041	23,947	25,032	373,178		
Direct Cost								
Statutory	(72,542)	(95,950)	(25,391)	(14,368)	(13,767)	(222,018)		
* HB2 - Vendor Fee (62140)	(8,908)	(14,568)	(3,594)	(2,000)	(2,090)	(31,160)		
Indirect Cost								
HB2 - Supplies (62200)	(25,236)	(63,954)	(14,056)	(7,579)	(9,175)	(120,000)		
Net Income	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0		
EPP #1506 - Building Rent								
Indirect Cost	\$ (755)	\$ (1,239)	\$ (304)	\$ (169)	\$ (173)	\$ (2,640)		
GENERAL FUND TRANSFER							\$ 7,440,079	
EPP #1507 - Vendor Fees/Sales Growth (See Note B)								
Revenue							\$ 1,796,400	
Direct Cost								
Statutory							(988,020)	
* HB2 - Vendor Fee (62140)							(150,000)	
Net Income							\$ 658,380	Note B: These vendor fees would be necessary with possible sales growth due to unexpected jackpots or new product introduction. The net income of \$658,380 represents what could be earned if all vendor fees were needed.
* Assumes no change in Vendor fee % with new contract								

Figure 15B

Montana Lottery							
Anticipated FY2007 Financial Activity by Product							
BASE BUDGET	Scratch Tickets	Powerball	Montana Cash	Wild Card	Hot Lotto	TOTALS	ADDITIONAL INFORMATION
Revenue:							
Product Sales	\$ 10,300,000	\$ 16,400,000	\$ 4,050,000	\$ 2,250,000	\$ 2,300,000	\$ 35,300,000	
Other (Licensing, Interest)	15,173	24,159	5,892	3,388	3,388	52,000	
Total Revenue	\$ 10,315,173	\$ 16,424,159	\$ 4,055,892	\$ 2,253,388	\$ 2,303,388	\$ 35,352,000	
Direct Costs:							
Statutory (Prizes & Commissions)	(6,901,000)	(8,692,000)	(2,308,500)	(1,305,000)	(1,265,000)	(20,471,500)	
HB2	(1,581,050)	(1,369,400)	(334,000)	(192,050)	(192,050)	(3,668,550)	
* (Vendor Fee, Scratch Tickets, Dues)							
Non-Budgeted (System Depreciation & Amortization)						0	\$ 1,044,571 Reduction from FY2004 See Note A on page 2
Total Direct Costs	\$ (8,482,050)	\$ (10,061,400)	\$ (2,642,500)	\$ (1,497,050)	\$ (1,457,050)	\$ (24,140,050)	
Indirect Costs:							
HB2 Operating Expenses (Personnel, Advertising, Rent, Supplies, etc.)	(888,367)	(1,414,487)	(349,309)	(194,061)	(198,373)	(3,044,597)	
Non-Budgeted (Other Depreciation, Loss on Sale of Asset, etc.)	(2,918)	(4,646)	(1,147)	(637)	(652)	(10,000)	
Total Indirect Costs	\$ (891,285)	\$ (1,419,133)	\$ (350,456)	\$ (194,698)	\$ (199,025)	\$ (3,054,597)	
* Assumes no change in Vendor fee % with new contract							
EPP #1501 - Administrative Server							
Indirect Cost							
Non-Budgeted Depreciation	\$ (388)	\$ (618)	\$ (153)	\$ (85)	\$ (87)	\$ (1,331)	\$ 7,000 Total cost of Server to be depreciated over 5 years
EPP #1502 - Commission Per Diem							
Indirect Cost	\$ (365)	\$ (581)	\$ (143)	\$ (80)	\$ (81)	\$ (1,250)	
EPP #1503 - Operating System (See Note A)							
Depreciation/Amortization Reduction (memo only)						\$ 1,044,571	Note A: In 1999, the Lottery purchased its gaming system which will be completely depreciated as of 3/2006. We believe the system does not need to be replaced but only refurbished.
Direct Cost							
Non-Budgeted Depreciation	(24,500)	(41,327)	(10,207)	(5,670)	(5,796)	(87,500)	(87,500)
Indirect Cost							
HB2 - Other Svcs/Supplies/Repairs	(43,768)	(69,688)	(17,210)	(9,561)	(9,773)	(150,000)	(150,000)
Net Effect on Transfer	\$ (68,268)	\$ (111,015)	\$ (27,417)	\$ (15,231)	\$ (15,569)	\$ (237,500)	\$ 807,071 \$1,044,571 represents a reduction in depreciation and amortization if the system does not need to be replaced.
EPP #1504 - Permanent Lighted Signage							
Revenue (1.028% sales increase)	106,686	174,473	43,041	23,946	25,032	373,178	\$807,071 represents the possible decrease in associated expenses.
Direct Cost							Total budget request is for a \$600,000 biennium appropriation.
Statutory	(72,551)	(95,970)	(25,397)	(14,368)	(13,768)	(222,054)	
* HB2 - Vendor Fee (62140)	(8,908)	(14,568)	(3,595)	(1,999)	(2,090)	(31,160)	
Net Income	\$ 25,227	\$ 63,935	\$ 14,049	\$ 7,579	\$ 9,174	\$ 119,964	
EPP #1506 - Building Rent							
Indirect Cost	\$ (1,165)	\$ (1,855)	\$ (458)	\$ (254)	\$ (260)	\$ (3,992)	
GENERAL FUND TRANSFER							
	\$ 896,879	\$ 4,893,492	\$ 1,048,814	\$ 553,569	\$ 640,490	\$ 8,033,244	
EPP #1507 - Vendor Fees (See Note B)							
Revenue						\$ 2,994,000	Note B: These vendor fees would be necessary with possible sales growth due to unexpected jackpots or new product introduction. The net income of \$1,097,300 represents what could be earned if all vendor fees were needed.
Direct Cost							
Statutory						(1,646,700)	
* HB2 - Vendor Fee (62140)						(250,000)	
Net Income						\$ 1,097,300	
* Assumes no change in Vendor fee % with new contract							

Figure 15C

Figure 15C

Continuation and Augmentation of Reporting Requirement

If the 2005 Legislature includes similar language for presentation to the 2007 Legislature, a comparison could be made between what was anticipated (Figures 15B and 15C) and what actually occurred for FY 2006. Because FY 2007 would not be completed, the legislature may want to require that updated projections for FY 2007 be presented for comparison against expectations shown on Figures 15B and 15C and used by the legislature when appropriating 2007 biennium funds.

Figures 15B and 15C show information for fiscal years under consideration for appropriation by the legislature for the 2007 biennium. The information shows anticipated impacts of expenditure adjustments from each proposed initiative on the transfer to the general fund. The direct expenditure impact is obvious since expenditure increases directly reduce the amount of the transfer by the expenditure amount. Expenditure adjustments are made for various reasons, such as general costs of doing business or costs incurred in anticipation of impacting revenue growth. The legislature may wish

to require inclusion of the expected revenue impact from each initiative in future reports in addition to the expenditure information currently required. Augmenting the information with revenue expectations from the initiatives would better enable the legislature in appropriating lottery funds with the goal of maximizing the transfer for funds to the general fund.

Actual impacts on revenues from each initiative may be difficult to isolate with certainty, but actual revenue impacts could be compared to expectations to better evaluate the impacts of appropriations on lottery revenues. If the reporting requirements were changed as indicated and continued, the information on expected results could be compared with actual results to better aid the legislature in appropriating lottery funds.

The legislature has the following options for lottery reporting requirements:

- Option A – Discontinue reporting requirements
- Option B – Require that the lottery provide the same information for the 2007 Legislature required in the language for presentation to the 2005 Legislature
- Option C – Require that the lottery provide the same information for the 2007 Legislature required in the language for presentation to the 2005 Legislature, but augmented to include presentation of the expected revenue impact from each initiative

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table						
Montana State Lottery						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
06001 State Lottery Fund	\$ 8,360,749	100.0%	\$ 8,176,457	100.0%	\$ 7,451,322	100.0%
Grand Total	\$ 8,360,749	100.0%	\$ 8,176,457	100.0%	\$ 7,451,322	100.0%

The lottery is funded entirely with proprietary funds derived from lottery game revenues. Net revenues of the lottery are by state law transferred to the general fund. Therefore, the lottery is indirectly funded with general fund.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2006-----					-----Fiscal 2007-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				74,604						74,857
Vacancy Savings				(58,808)						(58,815)
Inflation/Deflation				(5,492)						(5,576)
Fixed Costs				60,839						(38,777)
Total Statewide Present Law Adjustments				\$71,143						(\$28,311)
DP 301 - Indirect Administrative Costs										
0.00	0	0	0	(1,008)*	0.00	0	0	0	0	(1,041)*
DP 1501 - Administrative Server - OTO										
0.00	0	0	0	7,000 *	0.00	0	0	0	0	0
DP 1502 - Commission Per Diem										
0.00	0	0	0	1,250 *	0.00	0	0	0	0	1,250 *
DP 1503 - Operating System										
0.00	0	0	0	600,000 *	0.00	0	0	0	0	0
DP 1506 - Rent										
0.00	0	0	0	2,640 *	0.00	0	0	0	0	3,992 *
DP 1507 - Vendor Fees										
0.00	0	0	0	150,000 *	0.00	0	0	0	0	250,000 *
DP 1550 - Reduce debt service										
0.00	0	0	0	(1,135,317)*	0.00	0	0	0	0	(1,135,317)*
Total Other Present Law Adjustments										
0.00	\$0	\$0	\$0	(\$375,435)*	0.00	\$0	\$0	\$0	\$0	(\$881,116)*
Grand Total All Present Law Adjustments				(\$304,292)*						(\$909,427)*

DP 301 - Indirect Administrative Costs - A reduction of \$2,049 lottery proprietary fund for the biennium is requested to fund increases and allocation changes in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT

Indirect Administrative Cost Reduction

The allocation of indirect administrative costs to the lottery would be reduced while the costs of the programs funded with the indirect administrative cost assessments would increase. The reduction for the lottery is due primarily to the lower historical and anticipated usage of the Legal Services Unit in the Administrative Financial Services Division. Because of the lower usage of legal services, the division has been allocated nearly \$19,900 less of the legal Services costs for the biennium.

DP 1501 - Administrative Server - OTO - An increase of \$7,000 lottery proprietary fund for FY 2006 is requested to replace the administrative server that controls the lottery local area network. The executive recommends the legislature designate an appropriation for this request as one time only.

DP 1502 - Commission Per Diem - An increase of \$2,500 lottery proprietary fund for the biennium is requested to fund per diem for five meetings of the lottery commission per year.

DP 1503 - Operating System - An increase of \$600,000 lottery proprietary fund for the biennium is requested to replace, refurbish, or buy new equipment and software for the on-line gaming system that allows sales of all tickets, tracks sales and winning tickets, and provides all accounting information related to lottery transactions. The executive recommends the legislature designate an appropriation for this request as biennial.

**LFD
ISSUE***Uncertainty of Future Expense*

With one-time funding from the 2003 Legislature, the lottery has contracted with a lottery consultant to evaluate the on-line gaming system for performance, life expectancy, and maintenance costs. The report from the consultant has not been received to validate the costs included in the adjustment for the operating system. As such, the expected costs of the adjustment are not based on a validated system maintenance plan or component replacement schedule.

The legislature may wish to designate the funding of the adjustment as one-time-only so future funding can be evaluated on the merit of a systematic maintenance plan, when developed. Because the funding included in the adjustment is speculative instead of plan based, the legislature may also want to restrict the funding only for expenditures to maintain the infrastructure of the on-line gaming system.

If the legislature wishes to approve the funding of this adjustment it has the following options:

- Approve the adjustment as requested
- Approve the adjustment as requested but with the addition of one or both of the following additional designations:
 - One-time-only
 - Restricted for expenditures directly relating to maintaining the on-line gaming system software and hardware infrastructure

DP 1506 - Rent - An increase of \$6,632 lottery proprietary fund for the biennium is requested to fund increased rent costs for lottery office and warehouse space based on actual rental contract terms and projected costs expected after the lease contract expires and is renegotiated after March 2007.

DP 1507 - Vendor Fees - An increase of \$400,000 lottery proprietary fund for the biennium is requested to fund payments to the vendor that operates and maintains the lottery operating systems.

**LFD
COMMENT***Vendor Fees*

The vendor that operates and maintains the lottery operating systems performs under a percentage-of-sales contract. Therefore, when sales increase, the payments to the vendor increase. The lottery estimates a \$1.8 million revenue increase in FY 2006 and \$3.0 million increase in FY 2007.

**LFD
ISSUE***Restricted Designation*

The fee paid to the vendor is based on a percent of sales. If the sales increase as anticipated, the lottery would expend the appropriation from this adjustment. However, if sales do not increase as anticipated, the lottery would have excess authority that could be used at their discretion.

The legislature may want to restrict the appropriation for this adjustment to only allow expenditures to be made as indicated.

DP 1550 - Reduce debt service - A reduction of almost \$2.3 million lottery proprietary fund for the biennium is requested to eliminate base funding for debt service. All lottery debt for the installment purchase of the on-line gaming system has been retired during the 2005 biennium and funding is no longer needed.

New Proposals

New Proposals											
		-----Fiscal 2006-----					-----Fiscal 2007-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
DP 1504 - Permanent Signage											
15	0.00	0	0	0	120,000 *		0.00	0	0	0	0
Total	0.00	\$0	\$0	\$0	\$120,000 *		0.00	\$0	\$0	\$0	\$0

DP 1504 - Permanent Signage - An increase of \$120,000 lottery proprietary fund for FY 2006 is requested to purchase window signage to identify retailers as a lottery sales location. The executive recommends the legislature designate an appropriation for this request as one time only, biennial, and restricted to this purpose only.

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	20.53	(1.00)	0.00	19.53	(1.00)	0.00	19.53	19.53
Personal Services	954,369	52,994	0	1,007,363	53,733	0	1,008,102	2,015,465
Operating Expenses	266,152	(5,927)	0	260,225	(5,566)	0	260,586	520,811
Total Costs	\$1,220,521	\$47,067	\$0	\$1,267,588	\$48,167	\$0	\$1,268,688	\$2,536,276
General Fund	1,190,996	44,351	0	1,235,347	45,451	0	1,236,447	2,471,794
State/Other Special	29,525	2,716	0	32,241	2,716	0	32,241	64,482
Total Funds	\$1,220,521	\$47,067	\$0	\$1,267,588	\$48,167	\$0	\$1,268,688	\$2,536,276

Program Description

The State Personnel Division provides state agencies with a variety of human resource management programs including training, position classification and pay, collective bargaining, employee relations, and assistance with compliance with state and federal employment law. The state general fund is reimbursed for administrative costs of the State Personnel Division through the statewide cost allocation plan. The division publishes state rules, standards, and policies relating to recruitment, selection, discipline, grievance, performance appraisal, leave, and other personnel matters. The division administers benefits plans including health, life, long-term care, dental, and vision insurance, flexible spending accounts, a sick leave fund, employee incentive awards, health promotion, and a voluntary employee benefit health care expense trust. In addition, the division administers a lease and contract to provide daycare services for Helena area state employees. The division also prepares, maintains, and distributes payroll for all state employees.

Program Highlights

Department of Administration State Personnel Division Major Budget Highlights
<ul style="list-style-type: none"> General fund budget would increase through adjustments totaling nearly \$90,000 for the biennium over the base (an average annual increase of 3.8 percent), due primarily to statewide present law adjustments, partially offset by a reduction of funding to eliminate 1.00 FTE as part of a statewide FTE reduction Anticipated medical claims would increase by about \$55.3 million for the biennium (proprietary funding) 3.65 FTE would be added to replace contracted case management activities for the group benefits program (proprietary funding)

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table						
State Personnel Division						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	\$ 1,190,996	97.6%	\$ 1,235,347	97.5%	\$ 1,236,447	97.5%
02518 State Daycare Program	29,525	2.4%	32,241	2.5%	32,241	2.5%
Grand Total	<u>\$ 1,220,521</u>	<u>100.0%</u>	<u>\$ 1,267,588</u>	<u>100.0%</u>	<u>\$ 1,268,688</u>	<u>100.0%</u>

Funding for general personnel administration functions is from the general fund. The Employee Benefits Bureau is funded from the investment earnings of the state employees benefits fund. The Employee Benefits Bureau also receives a minor general fund appropriation for administration of the employee incentive program and sick leave administration. The Professional Development Center is funded with proprietary fees charged to state agencies for training services. The State Payroll Unit is funded with proprietary fees charged to state agencies for payroll processing services. The proprietary funded portions of the division are not shown on the main budget tables, but are discussed in the proprietary rates at the end of the section for the division.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2006-----					-----Fiscal 2007-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				139,815					140,443
Vacancy Savings				(43,770)					(43,791)
Inflation/Deflation				(342)					(330)
Fixed Costs				(10,034)					(9,685)
Total Statewide Present Law Adjustments				\$85,669					\$86,637
DP 3 - State Daycare Lease Rate Increase									
0.00	0	2,715	0	2,715	0.00	0	2,715	0	2,715
DP 4 - Governor's Advisory Council on Disability									
0.00	2,936	0	0	2,936	0.00	2,936	0	0	2,936
DP 301 - Indirect Administrative Costs									
0.00	(1,202)	0	0	(1,202)	0.00	(1,202)	0	0	(1,202)
DP 2310 - Statewide FTE Reduction									
(1.00)	(43,051)	0	0	(43,051)	(1.00)	(42,919)	0	0	(42,919)
Total Other Present Law Adjustments									
(1.00)	(\$41,317)	\$2,715	\$0	(\$38,602)	(1.00)	(\$41,185)	\$2,715	\$0	(\$38,470)
Grand Total All Present Law Adjustments				\$47,067					\$48,167

DP 3 - State Daycare Lease Rate Increase - An increase of \$5,430 state special revenue for the biennium is requested to fund increases rent for the state sponsored daycare in Helena.

**LFD
COMMENT***State Support of Helena Daycare*

There is a daycare center located in an old school vacated by the Helena School District. The daycare center is in close proximity to the Capitol Complex. Since the 2001 biennium, the Department of Administration, through an appropriation of the legislature, has paid the rent costs for the daycare facility as a benefit for state employees. Funding for the rent payments comes from state agency contributions based on the number of Helena area employees.

DP 4 - Governor's Advisory Council on Disability - An increase of \$5,872 general fund for the biennium is requested to fund the Governor's Advisory Council on Disability for two-day meetings each quarter.

**LFD
COMMENT***Base – Governor's Advisory Council on Disability*

During FY 2004, the Governor's Advisory Council on Disability held one-day quarterly meetings, but only had about 80 percent attendance of council members. The request is to fund the council for 100 percent attendance and for one additional day for each meeting. Funding would be for lodging, meals, travel, and pay compensation.

DP 301 - Indirect Administrative Costs - A reduction of \$2,404 general fund for the biennium is requested to fund increases and allocation changes in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

DP 2310 - Statewide FTE Reduction - A reduction of \$85,970 general fund for the biennium is requested to reduce funding for 1.00 FTE human resources specialist.

Proprietary Rates**Proprietary Program Description**

The State Personnel Division manages four proprietary programs: 1) the Training program; 2) the Employee Benefits program, which includes the state's health and other benefit insurance plans; 3) the State Payroll/Benefits Operations program; and 4) the Flexible Spending Accounts program.

Training Program (Fund 06525)**Proprietary Program Description.**

The Professional Development Center (PDC) provides training and other services, such as facilitation, mediation, and curriculum design, to state agencies on a fee reimbursement basis. The use of PDC training is not mandatory for agencies that could choose from several available alternatives, such as seminars sponsored by national training firms, conferences and symposia, contracted training consultants, in-house training programs, and courses through post-secondary education institutions.

Proprietary Revenues and Expenses.

In FY 2004, the Professional Development Center had revenues of \$285,340 from fees paid by agencies statewide. The funding for customer payments to the PDC could not be determined because the accounting code used to record payments to the PDC for training is also used to record a variety of other training costs.

In FY 2004, revenues funded personal services for 3.08 FTE and operating costs. Personal services of about \$155,000 were 53 percent of expenses, with operating costs making up the remaining \$138,000 or 47 percent of PDC expenses.

The figure for fund 06525 shows the financial information for the fund from FY 2002 through FY 2007. This figure shows the program experienced operating losses each year of the 2003 biennium and is projecting operating losses in each year of the 2005 biennium. Operating losses through the 2005 biennium would decrease net assets to roughly 22 days of annual operating expenses by the end of FY 2005. Since assets consist entirely of cash or cash equivalent, net

assets are working capital to fund the daily operation of the center. The fund figure shows that the operation would start developing operating income in the 2007 biennium and increase net assets to 42 days of annual operating expenses.

Figure 23A

Professional Development Center
Historical and Projected Training Usage

Fiscal Year	Open Enrollment Participants	Open Enrollment Hours	Contract Service Participa	Contract Service Hours
1998	908	813	1990	726
1999	883	882	1396	599
2000	1368	1115	1921	444
2001	1292	1162	1853	377
2002	1473	1145	1813	420
2003	1217	1104	1273	438
2004	1522	1288	1411	465
2005 (projected)	1500	1300	1400	500
2006 (projected)	1600	1300	1400	500
2007 (projected)	1660	1400	1400	500

In order to meet ongoing financial obligations based on expenses and revenue cycles, the center needs to maintain a 45-day working capital level. Low working capital levels encountered in the 2003 and 2005 biennia impact the ability of the center to pay fiscal obligations on a timely basis. The rates requested for the center anticipate increasing working capital closer to 45 days.

Figure 23A shows the historical and projected usage of the PDC from FY 1998 through FY 2007. The figure shows a drop in usage in FY 2003 from the FY 2002 levels and then an increase in FY 2004. The center projects that the increased usage seen in FY 2004 will continue despite increases in rates for training offered by the center.

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Fund	Fund Name	Agency #	Agency Name	Program Name
6525	Intergovernmental Training	6101	Department of Administration	State Personnel Division

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:						
Fee revenue						
Revenue from Training Fees	260,277	293,695	285,340	276,666	275,000	275,000
Revenue from Fee B	-	-	-	-	-	-
Revenue from Fee C	-	-	-	-	-	-
Revenue from Fee D	-	-	-	-	-	-
Revenue from Fee E	-	-	-	-	-	-
Revenue from Fee F	-	-	-	-	-	-
Net Fee Revenue	260,277	293,695	285,340	276,666	275,000	275,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	565	561	260	-	-	-
Total Operating Revenue	260,842	294,256	285,600	276,666	275,000	275,000
Operating Expenses:						
Personal Services	151,136	153,798	154,981	158,061	159,063	159,523
Other Operating Expenses	141,373	145,793	137,569	122,779	108,652	108,452
Total Operating Expenses	292,509	299,591	292,550	280,840	267,715	267,975
Operating Income (Loss)	(31,667)	(5,335)	(6,950)	(4,174)	7,285	7,025
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(31,667)	(5,335)	(6,950)	(4,174)	7,285	7,025
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(31,667)	(5,335)	(6,950)	(4,174)	7,285	7,025
Total Net Assets- July 1 - As Restated	64,580	33,513	28,345	21,395	17,221	24,506
Prior Period Adjustments	-	167	-	-	-	-
Cumulative effect of account change	600	-	-	-	-	-
Total Net Assets - July 1 - As Restated	65,180	33,680	28,345	21,395	17,221	24,506
Net Assets- June 30	33,513	28,345	21,395	17,221	24,506	31,531
45 days of expenses (Total Operating Expenses times 45 days divided by total working days per year)	50,433	51,654	50,247	48,421	46,158	46,203

Proprietary Rate Explanation.

The PDC establishes rates by separating fixed and overhead costs from the variable costs directly associated with producing a specific service, such as a workshop. The total projected fixed costs are divided by an estimate of total billable hours to allocate fixed costs to billable staff hours.

Estimated billable hours for the 3.00 FTE training professionals in the center are derived from an analysis of past fiscal years. General preparation time, planning, administrative tasks, personal leave, and unbilled travel time are subtracted from the total available hours. This analysis indicates that 30 percent of total staff time can be billed to specific products or services.

An analysis of expenditures shows that 20 percent of total costs can be associated with specific products or services. The remaining 80 percent are personal services and other fixed cost that must be allocated through staff time. One half of the 45-day working capital requirement has been added to the fixed costs for the rate calculations in order to reach the full working capital requirement by the end of the biennium.

The base rate for services is calculated as:

$$[(\text{Total Costs} \times 80 \text{ percent}) + 0.5(\text{Working Capital})] / (\text{Total Hours} \times 30 \text{ percent}) = \text{Staff Cost per hour}$$

The base rate is used to set the price of individual workshops by analyzing the staff time required to develop and provide the workshop, along with other variable costs (printing, materials, travel, etc.) associated with conducting the training. The base rate is also used to set a general schedule of prices where staff time and variable expenses can be consistently projected. For the 2007 biennium, the executive requests the legislature approve the rates shown on Figure 23B. Based upon the approved base rates, the PDC anticipates charging training customers fees according to the schedule shown on Figure 23C.

Figure 23B			
Professional Development Center			
Base and Requested Rates			
	Actual	Requested	Requested
	FY 04	FY 06	FY 07
Training Services per hour	\$128.12	\$127.86	\$127.97

Figure 23C		
Professional Development Center		
Anticipated Course Fees		
Type of service	FY 2006	FY 2007
Open enrollment courses		
Two-day course, per participant	\$175	\$180
One-day course, per participant	110	115
Half-day course, per participant	85	87
Eight-day management series	545	550
Six-day management series	420	425
Four-day administrative assistant series	310	320
Contract courses		
Full day of training, flat fee	800	800
Half day of training, flat fee	540	550
Other services		
Consulting or facilitating, hourly fee	60	62
All other services, hourly fee	55	57

Significant Adjustments for the 2007 Biennium

The executive included present law adjustments that combined would reduce PDC funding by about \$20,400 for the 2007 biennium.

Adjustments included in the rate request are:

- An increase of about \$15,700 for the biennium to fund statewide adjustments
- A reduction of about \$36,600 for the biennium to eliminate costs associated with the annual human resources conference and the labor management training initiative from the PDC budget and which would be funded through other sources
- A reduction of about \$450 for the biennium associated with allocation changes and increases in indirect administrative cost payments made to other proprietary programs of the department

- An increase of about \$900 for the biennium to fund a change in allocation of employee benefit program costs to the PDC

**LFD
ISSUE**
Business Plan

The 2003 Legislature directed the Department of Administration to present a business plan to the 2005 General Government and Transportation Joint Appropriations Subcommittee for use during the legislative session that contains detailed information of training offered by the PDC. The legislature specified that the business plan should also include market research and results of surveys of government customer groups that support the need for the course offerings and that compare the availability and cost between the PDC and other alternative providers of PDC courses.

The 2003 Legislature required a business plan for the center because of concerns with the long-term financial viability of the fund as indicated by ongoing operating losses and declining fund balance. The figure for the fund of the PDC indicates that a turnaround of the financial situation is anticipated by the PDC. However, the elimination of the operating losses in the 2007 biennium would result from reducing operating expenses by nearly \$20,000 per year. Personal services comprise the majority of costs for the center at 53 percent in FY 2004. As a percentage of total operating costs, personal services would increase to nearly 60 percent by the end of the 2007 biennium. Personal services combined with other operating costs that would exist whether or not any training is provided would raise the percentage of fixed costs to about 80 percent of operating expenses, shown on the fund figure by the end of the 2007 biennium. Rising personal services and other fixed costs of the center put higher pressure on program management to offer training at costs and offerings that will both maintain revenues adequate to fund the center and not adversely impact price competitiveness for course offerings.

The business plan requested for the General Government and Transportation Joint Appropriations Subcommittee of the 2005 Legislature was not provided with the budget request nor is it formally available for the Legislative Fiscal Division analysis of the request. When the business plan is presented, an analysis to fully evaluate the impacts of the proposed expense reductions and growing impact of fixed costs on revenues and net assets of the fund will be completed.

State Payroll/Benefits Operations Program (Fund 06563)
Proprietary Program Description

The Payroll/Benefits Operations Bureau operates the statewide payroll, benefits, and human resources (HR) system to process, distribute, report, and account for payroll, benefits, and associated withholding and deductions for more than 13,000 state employees in three branches of Montana state government. The bureau establishes and maintains standards, processes, and procedures to be followed by state agencies in preparing and submitting payroll, benefits, and related HR data into the system. The system operated by the bureau provides information and processing in support of division and statewide functions and programs including employee benefits, classification, pay, labor relations, policy, and training.

Proprietary Revenues and Expenses.

In FY 2004, the Payroll/Benefits Operations Bureau had revenues of roughly \$435,310 from payroll processing fees paid by state agencies. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (42.4 percent), \$184,500
- State special revenue (33.9 percent), \$147,600
- Federal special revenue (12.6 percent), \$54,800
- Proprietary funds (10.8 percent), \$46,800
- All other funds (0.3 percent), \$1,600

In FY 2004, revenues funded personal services for 7.10 FTE and operating costs. Personal services of \$266,501 were 64.7 percent of expenses, with operating costs making up the remaining \$145,343 or 35.3 percent of bureau expenses.

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Fund	Fund Name	Agency #	Agency Name	Program Name		
6563	Payroll Fund	6101	Department of Administration	State Personnel Division		
					Actual FY02	Actual FY03
					Actual FY04	Budgeted FY05
					Budgeted FY06	Budgeted FY07
Operating Revenues:						
Fee revenue						
Revenue from Payroll Fees					358,604	367,908
Revenue from Miscellaneous Service Fees					1,943	686
Net Fee Revenue					360,547	368,594
Investment Earnings					-	-
Securities Lending Income					-	-
Premiums					-	-
Other Operating Revenues					98	101
Total Operating Revenue					360,645	368,594
Operating Expenses:						
Personal Services					248,105	253,369
Other Operating Expenses					128,592	97,146
Total Operating Expenses					376,697	350,515
Operating Income (Loss)					(16,052)	18,079
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets					-	-
Federal Indirect Cost Recoveries					-	-
Other Nonoperating Revenues (Expenses)					-	-
Net Nonoperating Revenues (Expenses)					-	-
Income (Loss) Before Operating Transfers					(16,052)	18,079
Contributed Capital					-	-
Operating Transfers In (Note 13)					-	-
Operating Transfers Out (Note 13)					-	-
Change in net assets					(16,052)	18,079
Total Net Assets- July 1 - As Restated					(85,298)	1,965
Prior Period Adjustments					-	-
Cumulative effect of account change					103,315	-
Total Net Assets - July 1 - As Restated					18,017	1,965
Net Assets- June 30					1,965	20,044
60 working days of expenses						
(Total Operating Expenses times 60 days divided by total working days per year)					86,597	80,578
					94,315	95,885
					108,260	95,749

The figure for fund 06563 shows the financial information for the fund from FY 2002 through FY 2007. This figure shows that operating losses through FY 2002 had reduced the net assets to nearly 2 days of annual expenses at the end of FY 2002. Rate increases in the 2005 biennium have reversed this trend and the net asset balance at the end of the 2007 biennium is projected to increase to over \$107,000.

**LFD
ISSUE***High Balance – Payroll Fund*

The calculations for determining 60 days of operating expenses on the above figure for fund 06563 indicates the balance at the end of the 2007 biennium would increase to over \$107,000. Since all assets of the fund are cash or cash equivalent, net assets equal working capital. As indicated on the figure, net assets (working capital) at the end of FY 2007 would be higher than 60 days.

Restrictions in state law and federal cost recovery guidelines generally limit the amount of working capital to 60 days. However, the situation is worse than indicated on the figure. The figure below (23D) indicates that the calculations for 60 days of operating expenses shown on the fund figure are in error. According to Figure 23D, the fund would exceed 60 days of working capital in FY 2005 and in FY 2007 would be 93 days, or even more above the 60-day working capital level than is indicated on the fund figure.

The legislature may want to consider the working capital level when considering the rates requested for the Payroll and Benefits Operations Bureau. To prevent the fund from accumulating too high a working capital balance, the legislature may want to approve lower rates for the payroll processing fee than are requested. Based on the revenues shown on the figure for the fund, a payroll fee of \$1.22 in FY 2007 would lower the FY 2007 ending working capital balance to 60 days.

Figure 23D						
Payroll Fund 60-day Working Capital Calculations						
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Annual operating expenses	\$376,697	\$350,515	\$411,844	\$417,101	\$470,929	\$416,506
60 days of operating expenses	62,783	58,419	68,641	69,517	78,488	69,418
Net Assets- June 30	1,965	20,044	44,027	88,540	70,714	107,311
Number of day of operating expenses	2	21	38	76	54	93

Proprietary Rate Explanation

Figure 23E shows the FY 2004 rates and rates submitted for legislative approval for the Payroll and Benefits Operations Bureau for the 2007 biennium.

Figure 23E			
Payroll and Benefits Operations Bureau			
Base and Requested Rates for the 2007 Biennium			
	Actual FY 04	Requested FY 06	Requested FY 07
Payroll fees (per employee processed per pay period)	\$1.25	\$1.34	\$1.33

Significant Adjustments for the 2007 Biennium

The executive included present law adjustments and new proposals for Payroll and Benefits Operations Bureau expenditures for an increase totaling nearly \$83,000 for the 2007 biennium.

Adjustments included in the rate request are:

- An increase of about \$27,600 for the biennium to fund statewide present law adjustments
- An increase of about \$3,500 for the biennium to fund allocation changes and increases in indirect administrative cost payments made to other proprietary programs of the department
- A reduction of about \$5,500 for the biennium to fund a change in allocation of employee benefit program costs to the bureau
- A reduction of about \$1,200 for the biennium for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency

- An increase of about \$56,400 for the biennium to fund the addition of 1.10 FTE to: 1) create a full-time position to develop, test, and generating reports, queries, and audits using the SABHRS financial and human resources systems; 2) Increase accounting technician position from a 0.50 FTE, grade 3 to full-time, grade 4; 3) add an 0.10 FTE to an existing accountant position to correctly allocate time spent performing accounting, budgeting, and rate-setting services for the program to the payroll fund; and 4) transfer 0.50 FTE of the payroll bureau chief from the payroll fund and to the benefits fund to correctly allocate funding with duties

Employee Benefits Program (Fund 06559)

Proprietary Program Description

The Employee Benefits Program is charged with providing state employees, retirees, and their families with adequate medical, dental, life, and other related group benefits in an efficient manner and at an affordable cost. The program operates a self-insured health and dental plan. Life and long-term care insurance are purchased from private sector vendors. The program contracts with private companies to provide claims processing services, health screening, managed care services, and an employee assistance program. The plan serves approximately 32,000 people.

Proprietary Revenues and Expenses

In FY 2004, the Employee Benefit Program had revenues of roughly \$85.7 million from premiums paid by state agencies and employee contributions. The state accounting system recorded about \$58.9 million from state sources. The state funded portion of the Employee Benefits Program revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (38.8 percent), \$22.8 million
- State special revenue (33.4 percent), \$19.7 million
- Federal special revenue (17.5 percent), \$10.3 million
- Proprietary funds (9.2 percent), \$5.4 million
- All other funds (1.1 percent), \$0.7 million

In FY 2004, revenues funded personal services for 13.00 FTE and operating costs. Personal services of about \$681,000 were 0.9 percent of expenses, operating costs were \$3.2 million or 4.1 percent of expenses, and benefits payments made up the remaining \$73.4 million or 95.0 percent of program expenses.

The primary cost drivers in the fund are costs for medical and prescription drug claims. Medical claim costs are projected to increase by approximately 15 percent annually. Drug claims are projected to increase by 12 percent annually.

The figure for fund 06559 shows the financial information for the group benefits fund from FY 2002 through FY 2007.

Working Capital Discussion

The Benefits and Health Insurance program maintains a substantial reserve to allow it to cover health claims against the self-insured plan. Insurance regulations require a certain reserve to be maintained in order to protect the well-being of participants in the plan. In addition, the program maintains a reserve to cover its pending liability for claims that have been incurred but not reported at any point in time. The program and a benefit consultant monitor the reserve levels to ensure the plan is complying with the insurance industries standard practices and requirements. Because of recent instability in the fund, the State Employee Group Benefits Advisory Council (SEGBAC) recommend the fund maintain a minimum of two to three months claims and operating expenses in reserve beyond the statutorily required reserves. This is a common practice in the insurance industry and is similar to working capital balances maintained in other governmental funds.

Fund Equity and Reserved Fund Balance

The reserves for the self-insured plan are calculated as a percentage of claims and consist of two components; incurred but not reported (IBNR) reserves and claims fluctuation reserves. A portion of the claims fluctuation reserve, known as the "grandfathered benefit" reserve, is set aside to pay the claim liability incurred when the state changed the timing on collecting premiums in August 1998. The switch was from collecting premiums prior to commencement of the month of coverage, to collecting premiums during the month of coverage. Employees in service on or before August 1998 are entitled to this grandfathered reserve.

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2007 Premium Report on Internal Service and Enterprise Funds 2007								
Fund	Fund Name	Agency #	Agency Name	Program Name				
6559	Group Benefits Claims A/C	6101	Department of Administration	State Personnel Division				
			Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:								
Revenue								
Revenue from Fee A			-	-	-	-	-	-
Revenue from Fee B			-	-	-	-	-	-
Revenue from Fee C			-	-	-	-	-	-
Revenue from Fee D			-	-	-	-	-	-
Revenue from Fee E			-	-	-	-	-	-
Revenue from Fee F			-	-	-	-	-	-
Net Fee Revenue			-	-	-	-	-	-
Investment Earnings			1,070,094	590,737	161,739	496,426	550,775	462,800
Securities Lending Income			146,894	25,517	4,209	-	-	-
Premiums			65,255,627	75,132,159	85,724,313	91,414,874	98,182,081	109,946,552
Other Operating Revenues			574,378	808,471	308,383	2,030,976	2,129,590	1,028,153
Total Operating Revenue			67,046,993	76,556,884	86,198,644	93,942,276	100,862,446	111,437,505
Operating Expenses:								
Personal Services			492,605	558,577	680,889	609,261	770,338	769,635
Other Operating Expenses			76,572,346	81,479,582	76,528,258	91,518,665	98,050,164	110,676,796
Total Operating Expenses			77,064,951	82,038,159	77,209,147	92,127,926	98,820,502	111,446,431
Operating Income (Loss)			(10,017,958)	(5,481,275)	8,989,497	1,814,350	2,041,944	(8,926)
Nonoperating Revenues (Expenses):								
Gain (Loss) Sale of Fixed Assets			-	-	-	-	-	-
Federal Indirect Cost Recoveries			-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)			-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)			-	-	-	-	-	-
Income (Loss) Before Operating Transfers			(10,017,958)	(5,481,275)	8,989,497	1,814,350	2,041,944	(8,926)
Contributed Capital			-	-	-	-	-	-
Operating Transfers In (Note 13)			-	-	-	-	-	-
Operating Transfers Out (Note 13)			-	-	-	-	-	-
Change in net assets			(10,017,958)	(5,481,275)	8,989,497	1,814,350	2,041,944	(8,926)
Total Net Assets- July 1 - As Restated			16,857,899	6,841,170	546,863	9,563,125	11,377,475	13,419,419
Prior Period Adjustments			1,229	(813,032)	26,765	-	-	-
Cumulative effect of account change			-	-	-	-	-	-
Total Net Assets - July 1 - As Restated			16,859,128	6,028,138	573,628	9,563,125	11,377,475	13,419,419
Net Assets- June 30			6,841,170	546,863	9,563,125	11,377,475	13,419,419	13,410,493
60 working days of expenses, excluding reserves for the Incurred but Not Reported Claim Liability.								
Total Operating Expenses times 60 days								
divided by total working days per year, less IBNR reserves)			8,552,133	7,372,371	6,485,936	9,983,286	11,521,809	14,424,321

Cash Flow Discussion

It is projected that about \$8.3 million per month in claims will be paid in FY 2006 and \$9.4 million per month in FY 2007. Premiums are collected either bimonthly with paycheck processing or at the beginning of the month depending on whether the premium is for active employees, retirees, legislators, or COBRA employees. Premium rates in FY 2002 were set lower than anticipated claims, as part of a planned effort to reduce the amount of its reserves. In FY 2002 claims and other operating costs exceeded premium revenues by \$8.1 million, which left the reserve balance below statutorily required levels. In FY 2003 and FY 2004, the program made a number of changes to benefits, requested additional funding of the legislature, and increased premiums to restore the stability of the fund. At this time, the program is funded as required by statute and accumulating reserves beyond that amount sufficient to fund two to three months of operating and claims expenses.

The cost of medical care is rising at a significant rate and these costs are projected to be \$90.6 million in FY 2006 and \$103.2 million in FY 2007.

Claims costs make up approximately 94 percent of program expenditures. Administrative costs comprise about 6.5 percent of total program expenditures, including contracting with vendors to process claims, managed care review, and administrative costs directly within the department. In comparison, insurance companies generally have administrative costs that range from 14 percent to 22 percent and pay 78 to 86 percent of their premiums out in claims.

Proprietary Rate Explanation

Figure 23F shows the historical rates and rates submitted for legislative approval for the state share of employee group benefits. The rates proposed by the executive -- the state contribution for employee insurance coverage - would add \$46 on January 1, 2006, and an additional \$51 on January 1, 2007, per month per employee. The rates for the state share of employee group insurance are not approved in HB 2, but in the state pay plan bill (HB 13). As a component of employee compensation, the state contribution is a subject of collective bargaining. The rate provided in HB 2 is the state contribution, i.e., the employer share of premium toward health care coverage.

Figure 23F Group Benefit Premium Rates						
	Actual FY 02	Actual FY 03	Actual FY 04	Budgeted FY 05	Budgeted FY 06	Budgeted FY 07
State share per employee per month	\$325	\$366	\$410	\$460	\$506	\$557
Change		41	44	50	46	51

LFD COMMENT

Fiscal Impact of Increase

The increases proposed by the executive represent increases over the FY 2004 rates of 23.4 percent in FY 2006 and 35.8 percent in FY 2007. The rates are based on increases of 10 percent over the previous year's state contribution and assume annual increases of 15 percent in the cost of medical and 12 percent on the cost of prescription drug claims. Based on information in SABHRS used to identify the above funding estimates for FY 2004 revenues, the general fund increase would be about \$5.3 million in FY 2006 and \$15.4 million in FY 2007 above the FY 2004 general fund expenditure of \$22.8 million. In addition to costs to the state, the increases would impact employees and retirees as well. Premium and benefit changes for the 2007 biennium are not determined until the benefit enrollment period at the end of each calendar year and are based on claim and fund performance trends observed during the previous 18 months. The amount of state contribution factor into the determination as premiums and benefit changes would need to fund the benefits after factoring the premium contribution from the state. Historically, the state share has funded 67 percent of premium revenues. At this time, no benefit changes are anticipated and the financial condition of the fund appears adequate to fund current benefits.

**LFD
COMMENT***Medicare Modernization Act*

Congress passed the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), which was signed into law in December 2003. Part D of the act allows for a 28 percent subsidy to qualified health insurance plans that offer prescription drug benefits. In simple terms, MMA allows the subsidy for qualifying prescription drug expenses of plans when Medicare-eligible members opt to use the plan instead of enrolling in the prescription drug plan offered under MMA. Rules for applying for the subsidy and for which benefits qualify for the subsidy are still being written and the state has no experience to determine the impact to the state group benefits plan from the act. The enrollment into the MMA prescription drug plan begins on January 1, 2006, and the state group benefits plan managers are anticipating mailing an informational packet to qualifying plan members at a future date. It won't be until after the MMA plan enrollment that the state would see any subsidy. For a further discussion of MMA, refer to the agency narrative for the Department of Public Health and Human Services in Volume 3, Section B, Legislative Budget Analysis 2007 Biennium.

Significant Adjustments for the 2007 Biennium

The executive included present law adjustments and new proposals for the Employee Benefits Program that result in increases of expenses totaling \$55.3 million for the 2007 biennium.

Adjustments included in the rate request are:

- An increase of about \$45,000 for the biennium to fund statewide present law adjustments
- An increase of \$110,000 for the biennium for fund increased operating costs in consultant services, publications and graphics, and postage
- An increase of about \$18,200 for the biennium to fund increases in indirect administrative cost for payments to other proprietary funded centralized programs of the department
- A net reduction of \$180,000 for the biennium to reduce base expenditures by \$480,000 for a case management contract and to increase funding by nearly \$300,000 to fund the addition of 3.65 FTE to provide the case management function with in-house staff as follows: 1) increase an existing position by 0.15 FTE to provide additional financial analysis and SABHRS reconciliation of plan costs; 2) add 1.00 FTE to increase two positions by 0.50 FTE each to handle additional claims appeals and customer service requests; 3) add 1.00 FTE to add a full-time customer service assistant for increasing number of plan members; 4) add 1.00 FTE as a full-time registered nurse case management position; and 5) transfer 0.50 FTE from the payroll fund to the benefits fund to align funding for the payroll bureau chief with duties performed
- An increase of \$55.3 million for the biennium to address anticipated medical benefit claims increases

Flexible Spending Account (FSA) Program (Fund 06027)**Proprietary Program Description**

The state offers its employees the opportunity to participate in a medical care and a dependent care flexible spending account, which allows them to pay for qualified expenses with pre-tax dollars. The Employee Benefits Bureau contracts with an account administrator whose fees are based on the number of employees participating in the plan. Employees designate a portion of their paycheck to be directed to the flexible spending accounts and are charged a monthly service fee, which is also collected through the payroll process. As participants in the plan incur medical or dependent care costs that are not reimbursed to them through other sources, they file a claim with the administrator who in turn reimburses the participant with funds from the flexible spending accounts maintained by the state, up to the employee's annual election amount. Annual elections that are not claimed are forfeited by the employee, and are retained by the fund to help cover operating costs. The Flexible Spending Account program is accounted for as an enterprise fund.

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Fund	Fund Name	Agency #	Agency Name	Program Name
6027	Flexible Spending Funds	6010	Department of Administration	State Personnel Division

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:						
Fee revenue						
Revenue from Administrative Fees	87,980	88,449	95,775	95,904	98,781	101,736
Revenue from Fee B	-	-	-	-	-	-
Revenue from Fee C	-	-	-	-	-	-
Revenue from Fee D	-	-	-	-	-	-
Revenue from Fee E	-	-	-	-	-	-
Revenue from Fee F	-	-	-	-	-	-
Net Fee Revenue	87,980	88,449	95,775	95,904	98,781	101,736
Investment Earnings	2,643	1,922	1,222	1,300	1,300	1,300
Securities Lending Income	48	-	-	-	-	-
Premiums	3,870,683	4,178,766	4,529,320	4,841,469	5,526,422	6,076,229
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenue	3,961,354	4,269,137	4,626,317	4,938,673	5,626,503	6,179,265
Operating Expenses:						
Personal Services	-	-	-	-	-	-
Other Operating Expenses	3,738,014	4,324,002	4,667,844	4,994,593	5,625,203	6,177,965
Total Operating Expenses	3,738,014	4,324,002	4,667,844	4,994,593	5,625,203	6,177,965
Operating Income (Loss)	223,340	(54,865)	(41,527)	(55,920)	1,300	1,300
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	223,340	(54,865)	(41,527)	(55,920)	1,300	1,300
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	223,340	(54,865)	(41,527)	(55,920)	1,300	1,300
Total Net Assets- July 1 - As Restated	91,081	314,421	261,445	219,918	163,998	165,298
Prior Period Adjustments	-	1,889	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	91,081	316,310	261,445	219,918	163,998	165,298
Net Assets- June 30	314,421	261,445	219,918	163,998	165,298	166,598
45 days of expenses, excluding dependant care claims. (Total Operating Expenses less Dep. Care) times 45 days divided by total days in year.	324,614	387,809	434,282	458,025	503,217	552,665

Proprietary Revenues and Expenses

In FY 2004, the flexible spending account had revenues of roughly \$4.6 million from administrative fees and premiums paid by state employees participating in the plan. Of these revenues, all but about \$98,200 was paid for plan administration and not reimbursed to plan participants. The fund had an operating loss of \$41,527. The loss is attributable to a provision in which a participant in the medical flexible spending account could request reimbursement for a claim that exceeds his contributions to date and then terminate his employment with the state before contributing his total elected amount. The fund is not able to seek reimbursement for the paid-out claim under IRS regulations. Typically, forfeitures of unclaimed annual elections offset the risk of contributions not being received.

The figure for fund 06027 shows the financial information for the fund from FY 2002 through FY 2007.

Proprietary Rate Explanation

The rate charged to participants in the flexible spending account plan is established through the competitive bid procurement process and contract negotiations with the successful bidder for the claims administration contract. The participant pays these plan administration fees. Figure 23E shows the historical and negotiated fees for fiscal years 2003 through 2004. Because the fund is an enterprise type proprietary fund, the legislature does not approve fees and charges for the fund. The information is provided only for informational purposes.

Currently the claim administrator charges \$2.15 per member per month. This rate is subject to inflation and other cost increases by the administrator on an annual basis.

Program Description

The Risk Management and Tort Defense Division insures state agencies against risk of loss for property, vehicles, boilers, airports, aircraft, fidelity bonds, and fine arts. The state self-insures against property losses under \$150,000 (\$250,000 for the prison), and claims for general liability, errors and omissions, inland marine, auto liability, and foster care liability. The state also carries full coverage auto insurance on certain state-owned vehicles and on various leased or loaned vehicles. The division also provides risk management and safety training, consultation services, claims administration, and legal defense to prevent or minimize the adverse effects of physical or financial loss.

Program Highlights

Department of Administration Risk Management & Tort Defense Major Budget Highlights	
<ul style="list-style-type: none"> • Total premiums charged for insurance would decrease by \$1.2 million or 4.1 percent from the 2005 biennium 	

Funding

The Risk Management and Tort Defense Division is funded entirely with proprietary funds financed with revenues from premium payments from state agencies.

Proprietary Rates

Proprietary Program Description

The Risk Management and Tort Defense Division (RMTD) purchases catastrophic commercial property and casualty insurance to cover aviation and property losses that are above self-funded deductibles for state agencies, boards, councils, commissions, and the university system. Through in-house staff and contracted services, the division self-insures general liability, vehicle liability, professional liability, errors and omissions, inland marine, leased/loaned vehicles, and foster care exposures. The Department of Administration accumulates a self-insurance fund to pay for losses, purchase insurance, and fund operations.

The division provides risk management/safety training and consultative services to state agencies to prevent and/or minimize the adverse effects of physical or financial loss. The division also investigates, evaluates, and defends agencies, officers, and employees of the state in tort liability claims and coordinates the adjudication and settlement of claims involving damage to state property.

Proprietary Revenues and Expenses

In FY 2004, the Risk Management and Tort Defense Division had revenues of roughly \$14.7 million from premiums paid by state agencies. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (26.9 percent), \$4.0 million
- State special revenue (35.9 percent), \$5.3 million
- Federal special revenue (6.3 percent), \$0.9 million
- Proprietary funds (30.4 percent), \$4.5 million
- All other funds (0.4 percent), \$63,000

In FY 2004, revenues funded personal services for 16.00 FTE, operating costs, and insurance claims. Personal services of \$0.6 million were 25.2 percent of expenses and operating costs of \$1.9 million were 74.8 percent of expenses.

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Fund	Fund Name	Agency #	Agency Name	Program Name
6532	Agency Insurance Int Srv	6101	Department of	Risk Management & Tort Defense

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:						
Revenue						
Revenue from Fee A	-	-	-	-	-	-
Revenue from Fee B	-	-	-	-	-	-
Revenue from Fee C	-	-	-	-	-	-
Revenue from Fee D	-	-	-	-	-	-
Revenue from Fee E	-	-	-	-	-	-
Revenue from Fee F	-	-	-	-	-	-
Net Fee Revenue	-	-	-	-	-	-
Investment Earnings	55,779	-	59,371	-	-	-
Securities Lending Income	1,005	-	-	-	-	-
Premiums	8,023,758	8,617,724	14,717,612	15,452,767	14,431,941	14,499,856
Other Operating Revenues	47,331	102,252	6,386	-	-	-
Total Operating Revenue	8,127,873	8,719,976	14,783,369	15,452,767	14,431,941	14,499,856
Operating Expenses:						
Personal Services	658,936	629,155	654,187	760,642	797,680	797,114
Other Operating Expenses	16,923,538	8,508,981	1,942,226	13,873,502	7,636,224	7,617,804
Total Operating Expenses	17,582,474	9,138,136	2,596,413	14,634,144	8,433,904	8,414,918
Operating Income (Loss)	(9,454,601)	(418,160)	12,186,956	818,623	5,998,037	6,084,938
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(1,405)	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(1,405)	-	-	-	-	-
Income (Loss) Before Operating Transfers	(9,456,006)	(418,160)	12,186,956	818,623	5,998,037	6,084,938
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	1,150,353	167,434	615,582	644,456	644,456	644,456
Operating Transfers Out (Note 13)	(436,040)	(98,048)	(369,491)	(301,193)	(301,193)	(301,193)
Change in net assets	(8,741,693)	(348,774)	12,433,047	1,161,886	6,341,300	6,428,201
Total Net Assets- July 1 - As Restated	(24,551,176)	(33,303,044)	(33,651,273)	(21,213,438)	(20,051,552)	(13,710,252)
Prior Period Adjustments	(12,481)	545	4,788	-	-	-
Cumulative effect of account change	2,306	-	-	-	-	-
Total Net Assets - July 1 - As Restated	(24,561,351)	(33,302,499)	(33,646,485)	(21,213,438)	(20,051,552)	(13,710,252)
Net Assets- June 30	(33,303,044)	(33,651,273)	(21,213,438)	(20,051,552)	(13,710,252)	(7,282,051)
Operating Expenses:						
Operating Expenses divided by 6)	2,930,412	1,523,023	432,736	2,439,024	1,405,651	1,402,486

The figure for fund 06532 shows the financial information for the fund from FY 2002 through FY 2007. This figure shows operating losses in all years up to the 2005 biennium, which deplete net assets to \$33.7 million by the end of the 2003 biennium. Since the beginning of the 2005 biennium net assets have and are expected to continue to increase primarily due to the premium increase approved by the 2003 Legislature and the lower than typical claims experience seen in FY 2004. By continuing premiums at the higher levels approved by the 2003 Legislature the executive expects to gradually reduce the net asset deficit over time.

Each fiscal year the division contracts with an actuarial consulting firm to project the state's estimated unpaid loss and loss adjustment expenses. The actuarial evaluation provides an estimate of the funding that would be necessary if all of the state's claims and lawsuits for prior fiscal years came due at the same time. Actuarial projections of unpaid losses as of June 30, 2004, are \$25.6 million. Actuarial projected future loss costs for FY 2006 and FY 2007 determined the ultimate projected loss for those fiscal years to be \$8.7 million and \$9.3 million respectively. Since claims and lawsuits

are filed at different times and are typically paid out over as many as 10 years, it is not probable that all claims would come due at once.

Proprietary Rate Explanation

Figure 24A shows the FY 2004 rates and rates submitted for legislative approval for the Risk Management and Tort Defense Division.

Figure 24A Risk Management and Tort Defense Property and Casualty Insurance Premium Rates			
	Actual FY 04	Requested FY 06	Requested FY 07
General Liability	\$10,566,132	\$7,203,992	\$7,242,383
Auto Liability/Comp/Collision	1,028,497	1,668,644	1,671,416
Aviation	167,184	174,014	174,003
Property/Miscellaneous	<u>2,955,799</u>	<u>5,385,291</u>	<u>5,412,054</u>
Total	<u>\$14,717,612</u>	<u>\$14,431,941</u>	<u>\$14,499,856</u>

Premium Increases

Proposed increases in auto liability/comprehensive/collision insurance are primarily attributable to increases in the number of exposure units insured. Proposed increases in aviation (aircraft and airports) and property (boilers and machinery, employee fidelity bond, and fine arts) are the result of increases in the values of these assets and unfavorable insurance market conditions.

Insurance industry underwriting losses coupled with a reduced investment income from stocks and bonds have had a significant impact on the availability and affordability of commercial insurance. Property insurance carriers have also been experiencing a decline in investment income in stock markets. As a result, the state's property insurance premiums are expected to increase in FY 2006 and FY 2007. Since property claims are more predictable and loss costs are less volatile, the Department of Administration proposes to fully fund property insurance on an actuarial basis for the 2007 biennium.

LFD COMMENT

Fees Commensurate With Costs

In response to concerns about a declining fund balance, large catastrophic claims, and general fund loans, the Legislative Audit Division (LAD) determined in a June 2003 audit that the Risk Management and Tort Defense Division was not collecting premiums sufficient to establish fees commensurate with costs as required by 17-8-101, MCA. In response the division conducted an internal study, which indicated that to fully fund total estimated claims payable, insurance premium assessments to state agencies would need to increase approximately \$9.0 million for each year of the 2007 biennium.

The executive concluded that the probability is low that all claims will come due at the same time. Instead of fully funding total estimated claims payable, the executive developed rates to the 2007 biennium that would fund approximately 50 percent of total estimated claims payable. Legislation has been requested (LC 81) to exempt the state self-insurance fund from the requirement to fully fund total estimated claims payable.

Allocation of Premiums to Agencies

Premiums are allocated to agencies as follows:

- Automobile Liability and Physical Damage - Costs are apportioned to state agencies based upon their historical loss experience as well as the number of vehicles owned, leased, or borrowed
- Aviation (Aircraft and Airports) - Costs for aircraft are based upon year, make, model, and value of the aircraft and are determined by the insurance carriers. Costs for airports are apportioned to state agencies based upon the number of airports and are determined by the insurance carriers
- General Liability - Costs are apportioned to state agencies based upon their historical loss experience as well as agency FTE
- Property (boilers and machinery, crime, fine arts, and miscellaneous) - Costs are apportioned to state agencies based upon the estimated replacement cost value for buildings and fine arts reported as owned/leased/loaned. Costs for boilers are apportioned based upon the number of boilers. Costs for crime coverage are based on agency FTE

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	7.00	(0.50)	0.00	6.50	(0.50)	0.00	6.50	6.50
Personal Services	224,256	37,663	0	261,919	36,855	0	261,111	523,030
Operating Expenses	63,660	(949)	0	62,711	(801)	0	62,859	125,570
Local Assistance	6,504	0	0	6,504	0	0	6,504	13,008
Total Costs	\$294,420	\$36,714	\$0	\$331,134	\$36,054	\$0	\$330,474	\$661,608
General Fund	294,420	36,714	0	331,134	36,054	0	330,474	661,608
Total Funds	\$294,420	\$36,714	\$0	\$331,134	\$36,054	\$0	\$330,474	\$661,608

Program Description

The State Tax Appeal Board provides a tax appeal system for all actions of the Department of Revenue. It hears appeals from decisions of the 56 county tax appeal boards, primarily involving residential and commercial property valuation, and takes original jurisdiction in matters involving income taxes, corporate taxes, severance taxes, centrally-assessed property and new industry property, motor fuels taxes, vehicle taxes, and cabin site leases. The board travels throughout the state to hear appeals from decisions of the county tax appeal boards and to conduct informational meetings for the various county tax appeal boards. The State Tax Appeal Board directs the county tax appeal board secretaries, who are state employees, and pays their salaries and employee benefits from its personal services appropriation. The board also reviews and pays the expenses, including employee benefits, of those county tax appeal board secretaries who are county employees. In addition, the board pays the clerical-related expenses for all 56 county tax appeal boards, including supplies, postage, and copies, but excluding office equipment.

Program Highlights

Department of Administration State Tax Appeal Board Major Budget Highlights	
<ul style="list-style-type: none"> General fund budget would increase through adjustments totaling \$72,768 for the biennium over the base (an average annual increase of 12 percent) due primarily to statewide present law adjustments <ul style="list-style-type: none"> Statewide adjustments to fully fund positions would increase base expenditures for personal services by 29 percent due to 40 percent vacancies in the base Elimination of 0.50 FTE would reduce general fund by \$32,000 	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table						
State Tax Appeal Board						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	\$ 294,420	100.0%	\$ 331,134	100.0%	\$ 330,474	100.0%
Grand Total	\$ 294,420	100.0%	\$ 331,134	100.0%	\$ 330,474	100.0%

The board is funded entirely by the general fund. General fund increases by more than 12 percent on average each year over the base. The main factor for this increase is a 40 percent vacancy rate in FY 2004 and the corresponding increases resulting from fully funding all FTE, except for the vacancy savings and FTE reduction proposed by the executive. As stated, the county tax appeal board secretaries are state employees. These secretaries work only when needed, and need is based on the workload resulting from tax appeals.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2006-----					-----Fiscal 2007-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				65,167					64,287
Vacancy Savings				(11,577)					(11,541)
Fixed Costs				(1,076)					(928)
Total Statewide Present Law Adjustments				\$52,514					\$51,818
DP 301 - Indirect Administrative Costs	0.00	127	0	0	127	0.00	127	0	0
DP 2310 - Statewide FTE Reduction	(0.50)	(15,927)	0	0	(15,927)	(0.50)	(15,891)	0	0
Total Other Present Law Adjustments	(0.50)	(\$15,800)	\$0	\$0	(\$15,800)	(0.50)	(\$15,764)	\$0	(\$15,764)
Grand Total All Present Law Adjustments				\$36,714					\$36,054

DP 301 - Indirect Administrative Costs - An increase of \$254 general fund for the biennium is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

DP 2310 - Statewide FTE Reduction - A reduction of \$31,564 general fund for the biennium is requested to reduce funding by 0.50 FTE for an aggregate position that funds county tax appeal board secretaries.

LFD COMMENT

Base Year Vacancy Rate

The aggregate position impacted by this request was funded for 2.75 FTE for county tax appeal board secretaries, where the workload varies depending upon the volume of tax appeals in the county. In FY 2004, the position was utilized only 8.2 percent of the time available for a 91.8 percent vacancy rate.